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OHIO ECONOMIC TRENDS REVIEW

In this issue:

Economic forecasts for Ohio and selected regions

Japanese Automakers in the U.S.

Economic Development Organizations in Northeast Ohio

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Ohio Economic Trends Review publishes articles about current public finance and economic development issues of interest to state and local government policymakers and administrators, scholars, students, and individuals who monitor the state's economic and financial condition for the private sector.

Ohio Economic Trends Review is produced by the Fiscal Futures Service at Cleveland State University's College of Urban Affairs and is edited by the Board of Editors. Views expressed in articles are those of the authors and do not necessarily reflect official positions of the Fiscal Futures Service.

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The Urban Center at Cleveland State University, of which the Fiscal Futures Service is a part, was created as a model for joint university and community efforts. The seven other Ohio urban universities participating in the Urban University Program include the University of Akron, the University of Cincinnati, Kent State University, The Ohio State University, the University of Toledo, Wright State University, and Youngstown State University.

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Ohio Economic Trends Review welcomes articles advancing the understanding of the economic and financial infrastructure of the state and its political subdivisions. Articles are reviewed by members of the Board of Editors. No particular approach or research method is favored and manuscripts are invited from all disciplines. Reviewers evaluate manuscripts in terms of the value of the information for the readership, the contribution they make to advancing knowledge about public finance and economic development, and their clarity and quality.

To submit manuscripts and obtain detailed writer's guidelines, contact: Lucy G. Barnett, **Ohio Economic Trends Review**, The Urban Center, Cleveland State University, Cleveland, Ohio 44115.

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Employment Forecasts for 1988

by James P. Lesage, Bowling Green State University
and
Michael Magura, University of Toledo

A set of monthly forecasts of employment in all eight metropolitan areas of Ohio are presented in this article. The forecasts are for total employment in each of the eight Ohio SMSA's and extend from February 1988 through June 1989.

The employment forecasting model used is a monthly model whereas models published in previous editions of the *Ohio Economic Trends Review* were quarterly. The model uses monthly leading indicator information in an econometric model in order to forecast future employment. The Ohio Bureau of Employment Services, Labor Market Information Division, will begin publishing monthly leading indicators of metropolitan employment in Ohio on a regular basis sometime during 1988, and it is this same data which were used as explanatory variables in our econometric model to produce the forecasts presented here.

Before turning attention to the forecasts of future employment we will briefly document the accuracy of the past quarterly forecasts for 1987 presented in the Spring 1987 (Volume 2, Number 3) issue of the *Ohio Economic Trend Review*. Those forecasts began in the fourth quarter of 1986 and extended through the fourth quarter of 1987. Unfortunately the employment data were benchmark adjusted by OBES between the time of our last forecast and the present. This means that we cannot simply compare our forecasts with the actual employment figures for the period 86:4 through 87:4 in order to find the accuracy of the forecasts.

Figure 1 shows graphs of the past quarterly forecasts and the actual employment data for the period 1985:1 through 1987:4. The divergence between the solid line in the graphs depicting actual employment and the dashed line showing the forecasts prior to the fourth quarter of 1986 represents the benchmark adjustments to the employment data series. Our forecasts where based on the unadjusted data represented in the Figure 1 graphs by the dashed lines. It should be clear that the benchmark adjustments tended to adjust downward the employment estimates for the period prior to 1986:4. In order to judge the accuracy of our forecasts we should perform a similar downward adjustment to our forecasts since they were based on the higher unadjusted employment estimates of OBES. Another way to assess the accuracy of the forecasts would be to simply examine the quarter-to-quarter changes in employment that occurred during the forecast period for both the forecasted series and the new benchmarked employment series. The benchmarking adjustments do not appear to have affected this aspect of the employment data series. We came to this conclusion by simply examining the graphs in Figure 1, which show that the adjustment process seems to have adjusted the level of employment downward by some roughly constant amount. Figure 1 also makes it clear that for three metropolitan areas, Cincinnati, Dayton and Toledo, the benchmark adjustments were small.

Table 1 shows the actual total employment for each of the metropolitan areas along with the "adjusted" forecasted employment and the percentage error of the forecast. The adjustments we made to our forecast was to calculate the numerical difference between the unadjusted series (on which our forecasts were based) and the adjusted series for the four quarters 1985:4 through 1986:3 and subtract these amounts from our forecasts. The subtraction was done in the following way: the benchmark adjustment amount (the difference) for 1985:4 was subtracted from our forecast for 1986:4 and 1987:4; that for 1986:1 was subtracted from our forecast for 1987:1; that for 1986:2 from the 1987:2 forecast; and that for 1986:3 from the 1987:3 forecast. This approach was taken because we wished to preserve any quarterly seasonality that was inherent in the benchmarking adjustment process.

Our brief summary of the historical accuracy of the forecasts produced in 1986 for the 5-quarter horizon extending through the end of 1987 is that the forecasts were fairly accurate, and as one would expect, the largest errors seem to be concentrated around the forecasts

for four and five quarters ahead.

We now turn our attention to the current monthly model and future forecasts. The model used to produce these forecasts was a vector autoregressive model using total employment and five leading indicator variables. The leading indicator variables used were:

- SMSA Average Manufacturing Workweek (Hours)
- SMSA Initial Claims for Unemployment Insurance
- SMSA Housing Permits Dollar Valuation
- National Index of 12 Leading Economic Indicators
- Domestic Automobile Production

For a discussion of how we arrived at these variables as leading indicators of SMSA employment, the interested reader should see "A Leading Indicator Model for Ohio SMSA Employment" in *Growth and Change*, Summer 1987, which describes the process in some detail.

The model which produced the forecasts presented here was specified by examining alternative specifications for the vector autoregression, with the final econometric relations derived from those specifications that yielded the best forecast during a test period. The test period used was 1987, where out-of-sample forecasts extending 12 months into the future were made. That is, the model was estimated and forecasted by pretending the actual employment data for 1987 were not known, as if the model were being used in practice. This consisted of estimating the model with data up to the hypothetical present, then producing a 12-month forecast into the future (beyond the hypothetical present). The percentage errors for these test forecasts are shown in Table 2.

Table 1: 1987 Employment Forecast Percentage Errors

AKRON			
Period Yr:Qtr	Actual Employment	Adjusted Forecast	Percent Error
86:4	266,800	267,060	+0.09
87:1	259,533	258,763	-0.29
87:2	263,533	261,117	-0.91
87:3	264,567	259,930	-1.75
87:4	271,500	265,780	-2.10

CANTON			
Period Yr:Qtr	Actual Employment	Adjusted Forecast	Percent Error
86:4	153,700	156,240	+1.65
87:1	152,167	151,797	-0.24
87:2	155,967	155,273	-0.44
87:3	156,833	155,980	-0.54
87:4	158,733	159,030	+0.18

CINCINNATI			
Period Yr:Qtr	Actual Employment	Adjusted Forecast	Percent Error
86:4	666,800	668,173	+0.20
87:1	653,567	656,573	+0.45
87:2	677,633	677,070	-0.08
87:3	685,067	681,033	-0.58
87:4	692,267	685,443	-0.98

CLEVELAND			
Period Yr:Qtr	Actual Employment	Adjusted Forecast	Percent Error
86:4	890,000	895,663	+0.63
87:1	868,967	871,820	+0.32
87:2	889,533	889,530	-0.33
87:3	900,033	891,100	-0.99
87:4	907,733	899,183	-0.94

COLUMBUS			
Period Yr:Qtr	Actual Employment	Adjusted Forecast	Percent Error
86:4	649,033	658,970	+1.53
87:1	643,700	651,870	+1.26
87:2	656,000	673,557	+2.67
87:3	657,700	682,280	+3.73
87:4	673,633	700,500	+3.98

DAYTON			
Period Yr:Qtr	Actual Employment	Adjusted Forecast	Percent Error
86:4	426,867	431,897	+1.17
87:1	420,200	424,960	+1.13
87:2	428,167	432,870	+1.09
87:3	427,733	430,977	+0.75
87:4	435,567	441,567	+1.37

TOLEDO			
Period Yr:Qtr	Actual Employment	Adjusted Forecast	Percent Error
86:4	278,167	280,977	+1.01
87:1	272,033	274,163	+0.78
87:2	278,700	279,330	+0.22
87:3	279,433	276,933	-0.89
87:4	287,433	280,447	-2.43

YOUNGSTOWN			
Period Yr:Qtr	Actual Employment	Adjusted Forecast	Percent Error
86:4	189,300	190,820	+0.80
87:1	184,467	184,590	+0.06
87:2	189,267	189,680	+0.21
87:3	186,900	186,103	-0.37
87:4	191,733	189,170	-1.33

The worst forecast errors for the 12-month test period were less than 3 percent, and a large number of the forecast errors were less than 1 percent. In fact the forecast errors for 11 of the 12 months for Cincinnati and Dayton were under 1 percent.

The numerical values of the future forecasts from this model are shown in Table 3, and graphs of the employment forecasts are presented in Figure 2. In order to make it easier to see what the forecasts represent, Table 4 presents the percentage change in the forecasted

TABLE 2: Percentage Errors of Test Forecast

Month	Akron	Canton	Cincinnati	Cleveland	Columbus	Dayton	Toledo	Youngstown
1	0.47	0.43	−0.13	−0.35	0.24	−0.06	−0.41	−0.86
2	1.04	0.75	0.45	0.105	0.35	0.31	−0.18	0.00
3	1.39	1.80	−0.41	−0.10	1.10	0.16	−0.81	−0.17
4	1.01	1.49	−0.44	−0.18	0.90	0.26	−0.79	−0.05
5	1.90	1.72	0.23	−0.15	1.30	0.96	−0.06	−0.39
6	1.52	2.49	0.23	−0.64	1.40	1.00	−1.35	2.27
7	1.18	1.63	−1.15	−0.74	0.97	0.50	−1.54	0.25
8	0.48	1.55	−0.51	−0.67	1.13	0.64	−1.86	−1.19
9	0.20	0.58	−0.24	−1.14	1.01	0.82	−1.50	−1.41
10	−0.07	0.80	−0.56	−1.28	0.95	0.45	−2.15	−1.78
11	−0.33	0.65	−0.67	−1.35	0.81	0.71	−2.71	−2.08
12	−0.28	0.31	−0.64	−1.54	0.66	0.73	−2.64	−2.35

Table 3: Employment Forecasts for Ohio SMSAs

Period Yr:Mo	Akron	Canton	Cincinnati	Cleveland	Columbus	Dayton	Toledo	Youngstown
87: 1	258,900	151,900	650,100	867,100	642,100	419,200	271,200	183,900
87: 2	259,600	151,800	654,000	868,500	641,900	419,500	271,500	184,300
87: 3	260,100	152,800	656,600	871,300	647,100	421,900	273,400	185,200
87: 4	262,600	154,300	673,100	880,100	650,600	426,500	277,400	187,400
87: 5	265,900	156,300	679,600	889,500	657,200	429,300	280,200	189,600
87: 6	262,100	157,300	680,200	899,000	660,200	428,700	278,500	190,800
87: 7	262,100	155,700	679,400	900,700	652,900	423,800	277,200	183,400
87: 8	262,300	157,100	686,100	899,100	657,400	426,300	277,700	185,500
87: 9	269,300	157,700	689,700	900,300	662,800	433,100	283,400	191,800
87:10	271,000	158,600	688,800	904,500	670,300	434,200	285,800	191,800
87:11	271,600	158,700	693,100	908,500	674,200	436,600	287,900	191,900
87:12	271,900	158,900	694,900	910,200	676,400	435,900	288,600	191,500
88: 1	263,900	155,700	678,900	890,500	662,300	426,600	281,100	187,100
			— forecast starts here—					
88: 2	264,925	155,918	679,009	887,510	661,848	425,864	279,504	185,766
88: 3	266,599	156,955	684,077	893,068	666,377	428,838	281,310	188,356
88: 4	269,311	159,623	693,942	900,378	672,976	432,061	283,596	190,490
88: 5	271,265	160,884	698,700	905,957	677,138	434,529	286,024	193,091
88: 6	269,107	161,919	702,245	914,114	681,293	435,952	285,979	193,853
88: 7	267,786	161,096	697,023	910,140	673,238	430,539	281,124	191,092
88: 8	266,795	160,999	696,594	906,146	673,978	430,518	280,903	189,888
88: 9	271,804	161,207	702,869	906,381	679,172	437,353	285,458	193,718
88:10	272,500	160,459	702,320	905,168	681,919	438,681	288,523	193,364
88:11	272,133	160,639	703,309	906,510	687,384	439,171	288,651	192,823
88:12	271,537	160,401	703,155	906,163	687,690	439,116	287,658	191,904
89: 1	263,478	156,496	686,188	883,713	671,552	429,508	280,314	187,098
89: 2	264,200	156,069	685,595	881,325	671,110	428,438	279,369	186,159
89: 3	265,651	156,792	689,919	886,097	675,153	431,315	280,714	188,742
89: 4	268,258	159,174	699,162	893,108	681,329	434,448	282,994	190,923
89: 5	270,157	160,220	703,314	898,400	685,096	436,847	285,251	193,530
89: 6	267,975	161,085	706,308	906,355	688,914	438,236	285,060	194,282

employment level relative to that for the same month in the previous year. Large positive percentage changes of course indicate expansions in employment, and large negative percent changes depict contractions in employment.

Examining Table 4, we see some clear-cut evidence of a downturn in employment during late 1988 and the first six months of 1989. Three points should be kept in mind when considering Table 4. First, the model will, like all forecasting models, produce more inaccurate forecasts as we extend further into the future. That is, the forecasts for the first half of 1989 are most likely to be the least accurate. Second, the percentage changes in employment shown in Table 4 were calculated using the employment level from 12 months previous. In the case of February through June of 1989, the employment level 12 months previous used in this calculation is not the actual employment, but the forecasted employment level for February through June of 1988. This was necessary because we did not have the actual employment levels for this period when we ran the model. These percentage changes may then be subject to more error, depending of course on the accuracy of the forecasts for the February through June period of 1988. Third, the tests carried out in specifying the model involved forecasts of only 12 months into the future, whereas the actual future forecasts which we generated with the model extend out 18 months, introducing some additional risk that the last six months may be more inaccurate. This becomes especially clear when one considers the way in which a vector autoregressive model of the type used here works to produce forecasts. The leading indicators as well as employment must be dynamically forecasted, and past forecasted values are used in generating even most distant future forecasts. This leads to a possible compounding of errors during the later forecast periods.

Table 4: Forecasted Percentage Change in Employment

Period Yr:Mo	Akron	Canton	Cincinnati	Cleveland	Columbus	Dayton	Toledo	Youngstown
88: 2	2.06	2.71	3.85	2.19	3.11	1.52	2.95	0.80
88: 3	2.51	2.74	4.23	2.51	3.00	1.66	2.92	1.72
88: 4	2.59	3.50	3.21	2.34	3.48	1.33	2.28	1.68
88: 5	2.07	3.02	2.94	1.90	3.11	1.25	2.15	1.90
88: 6	2.71	3.04	3.39	1.74	3.29	1.73	2.76	1.66
88: 7	2.20	3.55	2.71	1.09	3.17	1.61	1.45	4.18
88: 8	1.74	2.57	1.61	0.81	2.58	1.01	1.18	2.39
88: 9	0.97	2.31	2.03	0.70	2.55	1.01	0.76	1.04
88:10	0.58	1.22	2.08	0.08	2.28	1.07	1.00	0.85
88:11	0.21	1.28	1.57	−0.23	2.05	0.61	0.28	0.50
88:12	−0.14	0.99	1.27	−0.47	1.76	0.77	−0.35	0.22
89: 1	−0.16	0.52	1.12	−0.78	1.44	0.69	−0.29	0.00
89: 2	−0.28	0.10	1.01	−0.71	1.44	0.61	−0.05	0.21
89: 3	−0.37	−0.11	0.90	−0.80	1.37	0.59	−0.22	0.21
89: 4	−0.41	−0.30	0.80	−0.84	1.30	0.57	−0.22	0.24
89: 5	−0.43	−0.44	0.71	−0.87	1.24	0.55	−0.29	0.24
89: 6	−0.44	−0.55	0.62	−0.89	1.19	0.54	−0.34	0.23

Despite the caveats mentioned above, it does seem clear that the model is pointing to slower employment growth, even at the 12-month horizon, where we believe the model will produce accurate forecasts. A second point here is that this seems to be a fairly consistent pattern across all of the metropolitan areas. Those areas where employment doesn't actually decline (such as Columbus) still exhibit a decline in the rate of growth, that is, a smaller percentage growth occurs during the latter months of 1988.

Figure 1a: Akron Employment

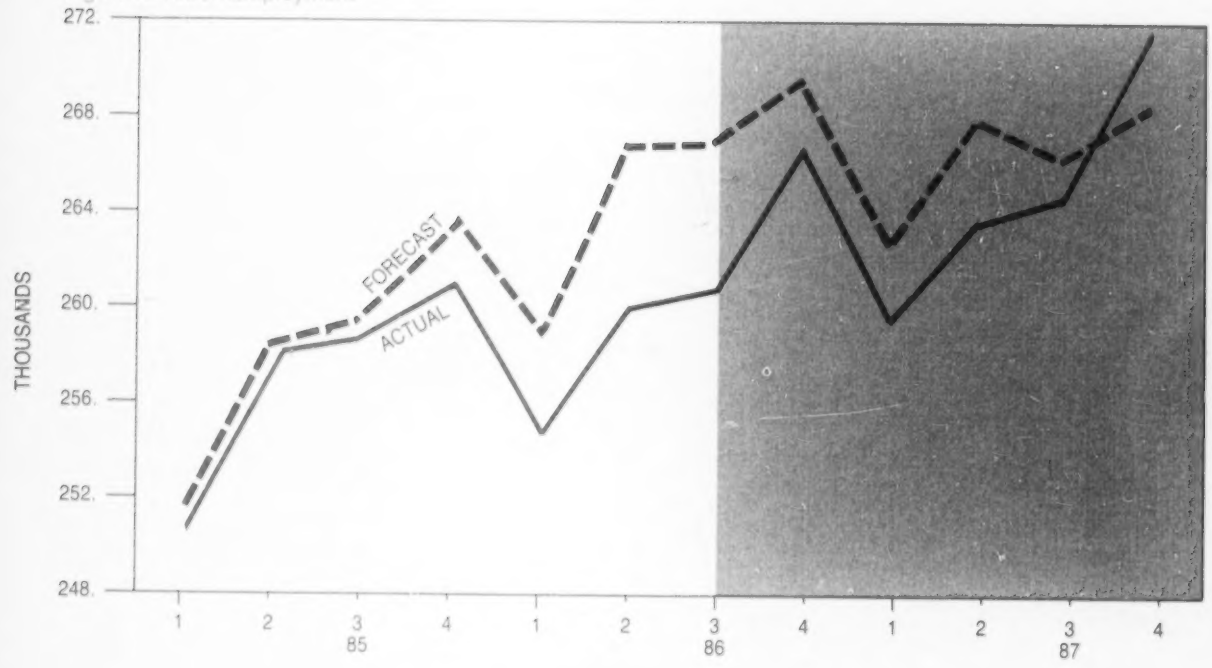
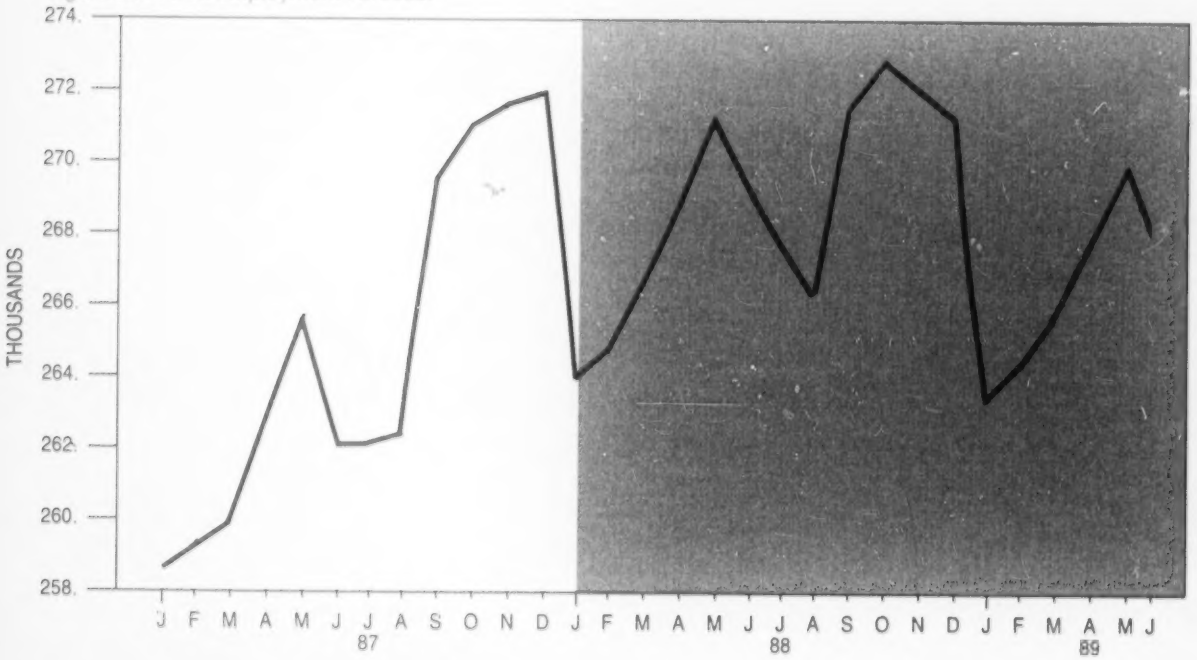


Figure 2a: Akron Employment Forecast



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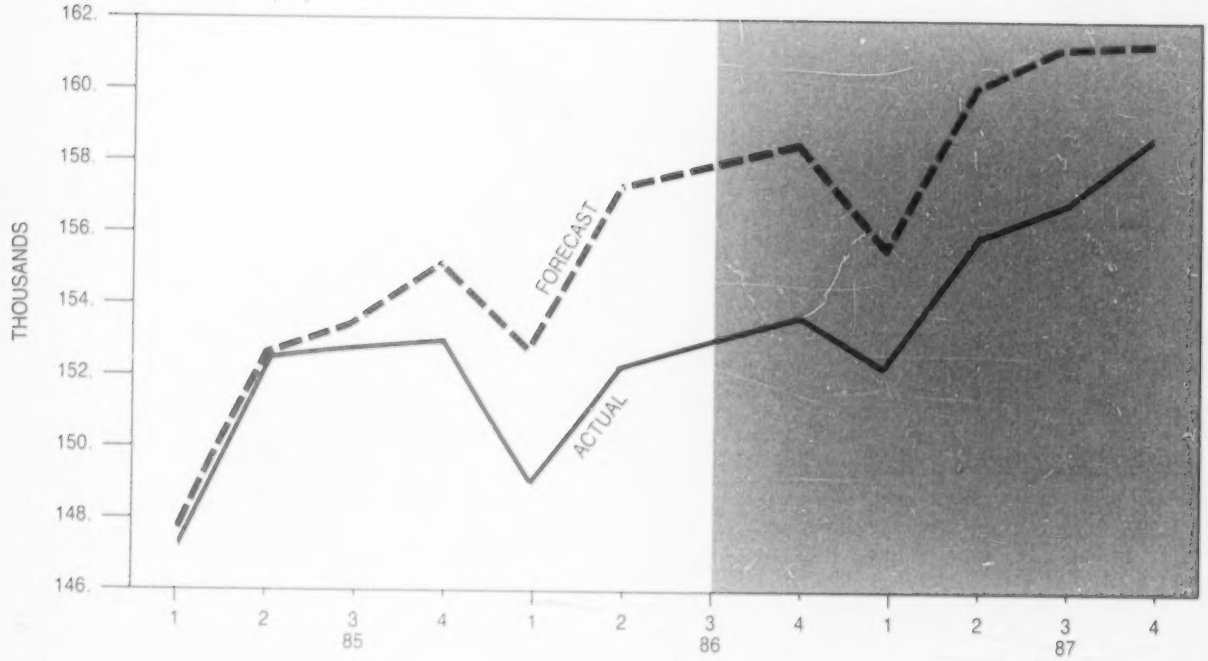


Figure 2b: Canton Employment Forecast

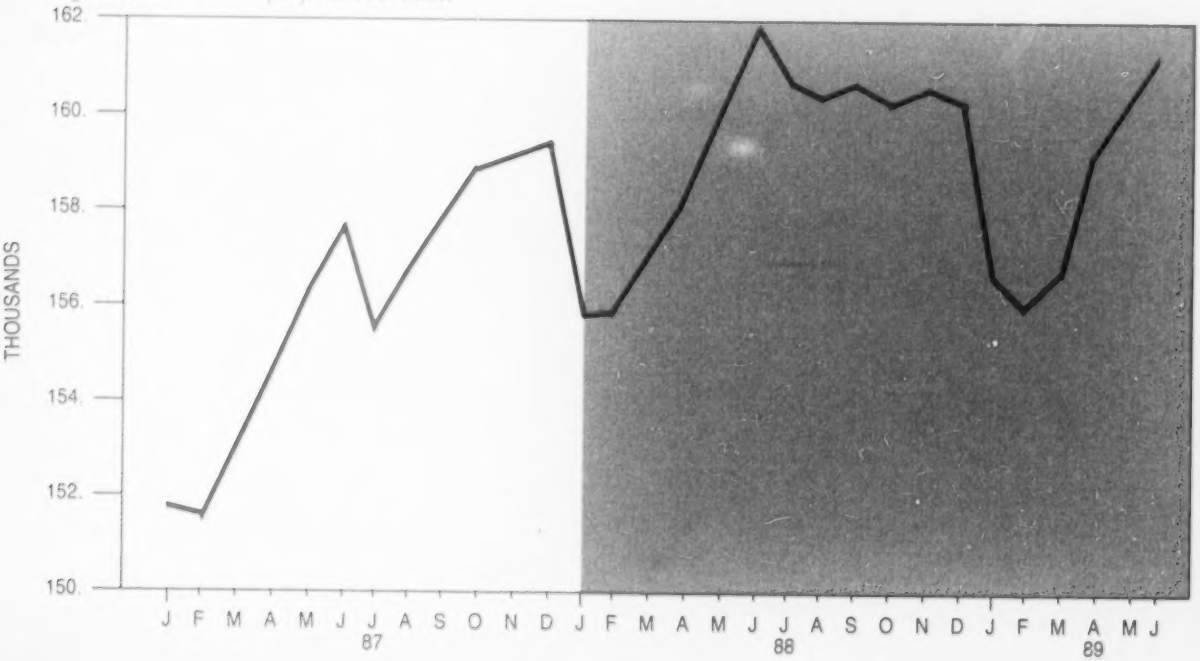


Figure 1c: Cincinnati Employment

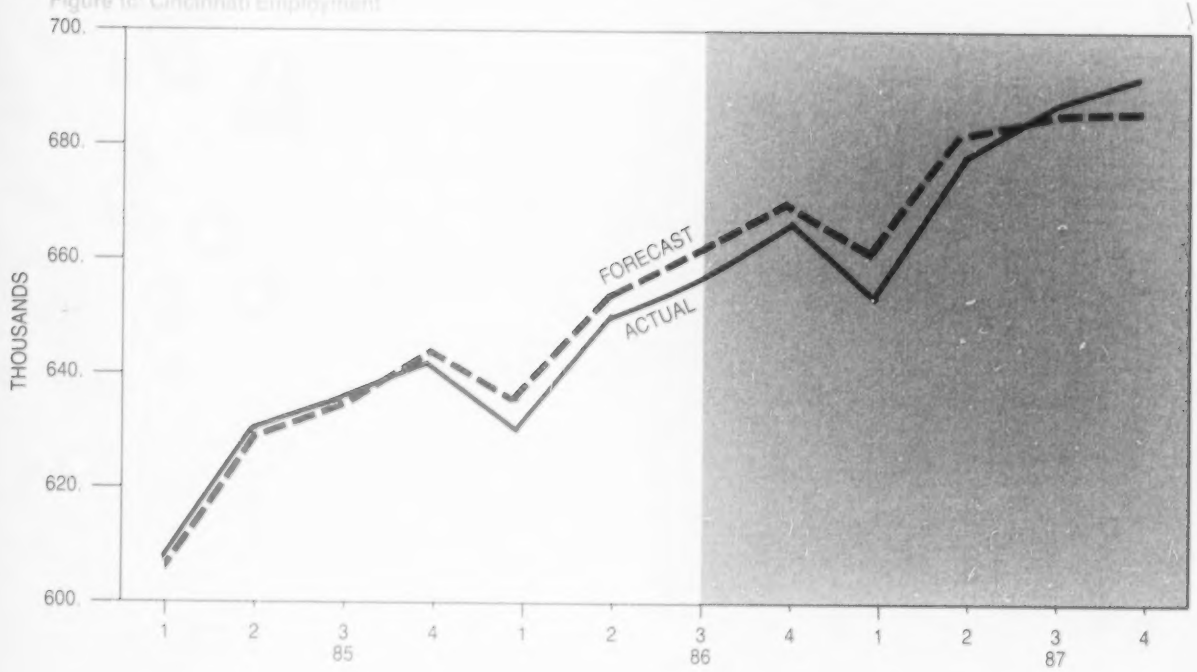


Figure 2c: Cincinnati Employment Forecast

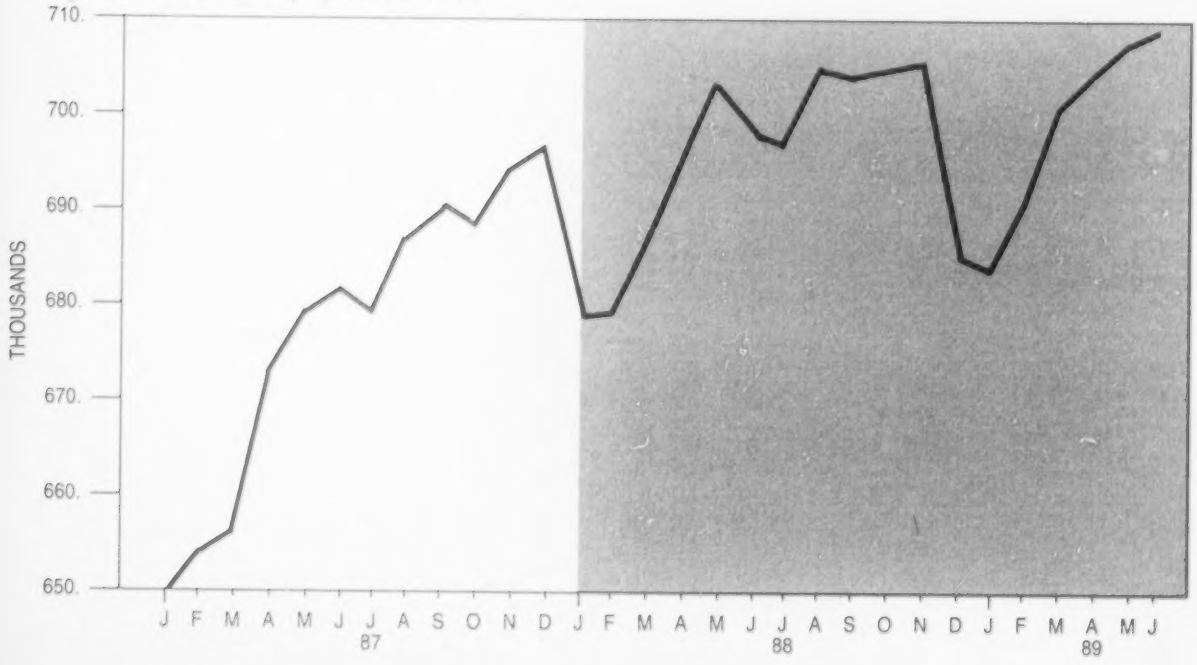


Figure 1d: Cleveland Employment

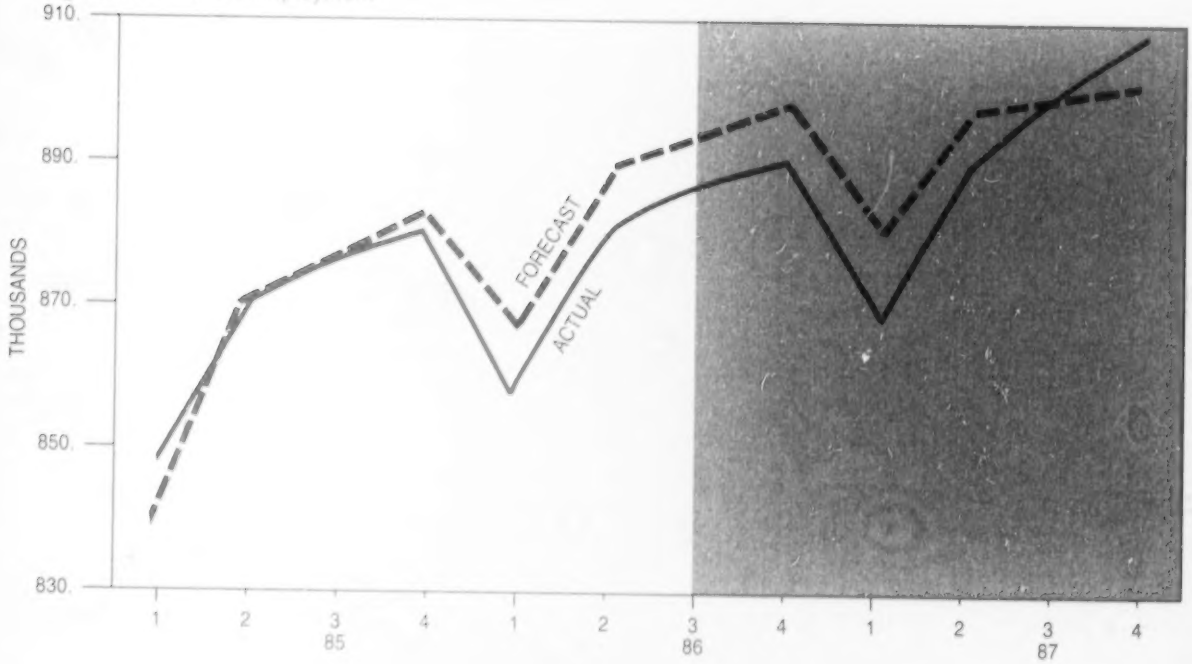
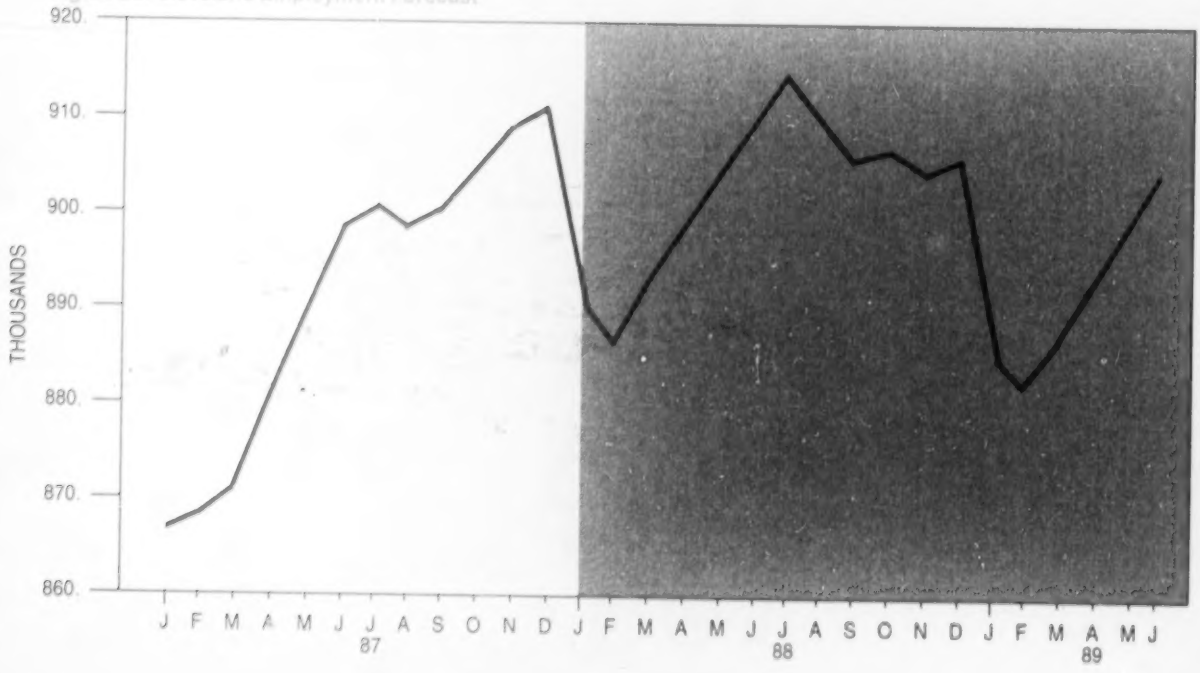


Figure 2d: Cleveland Employment Forecast



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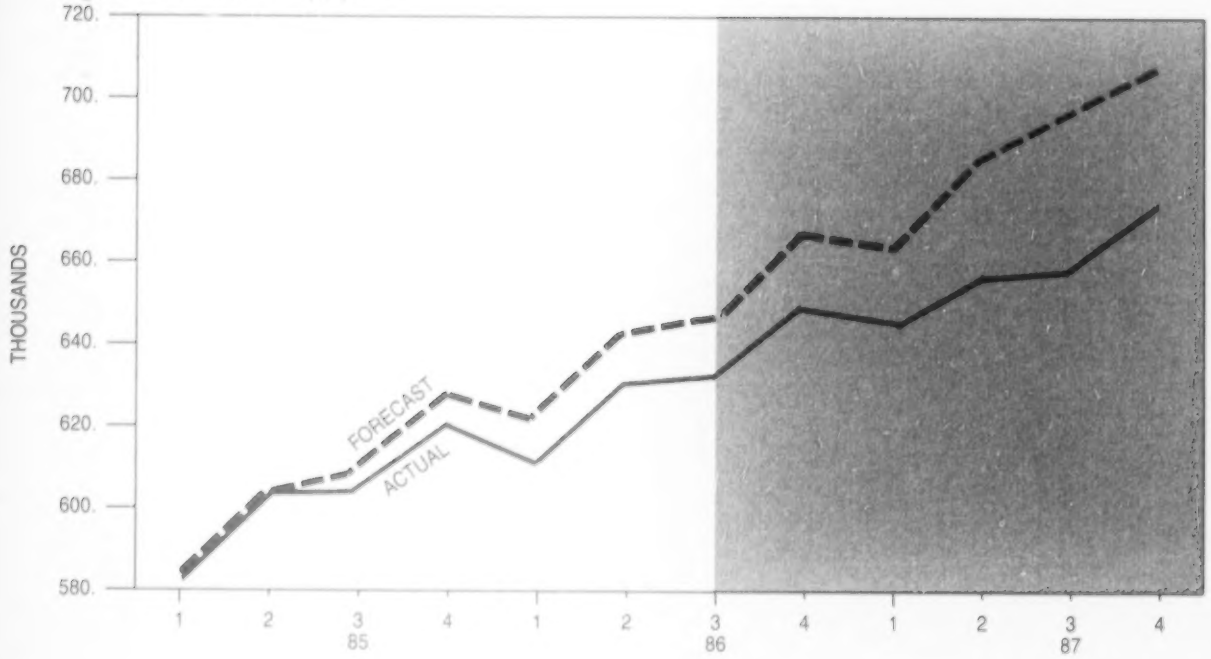
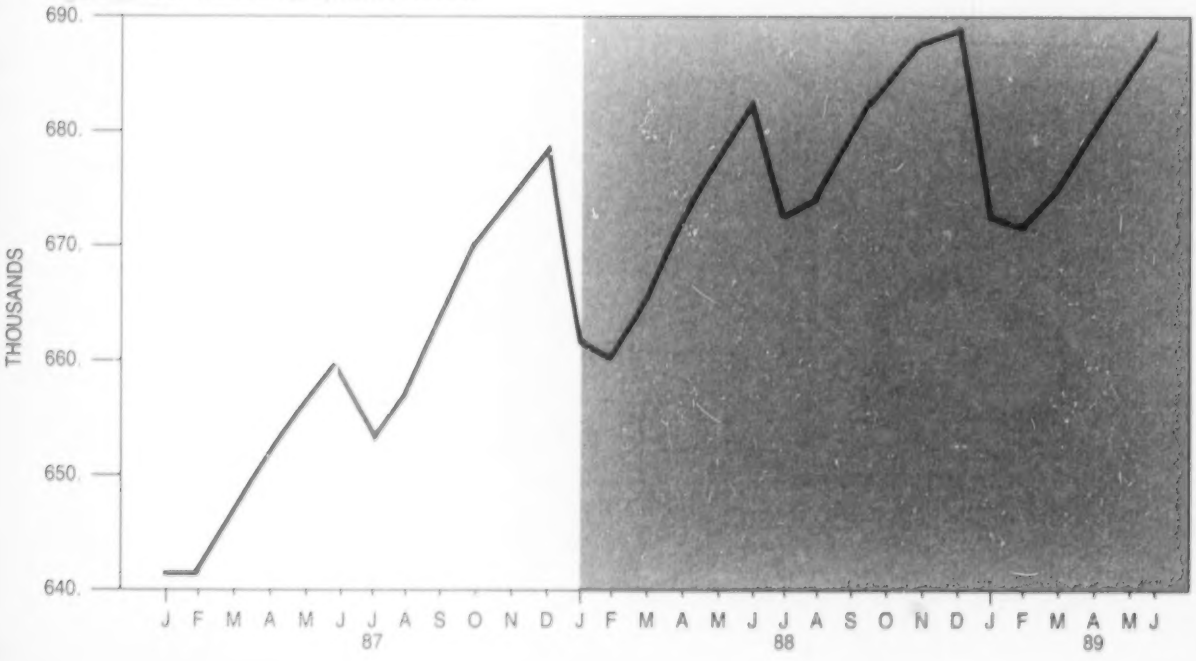
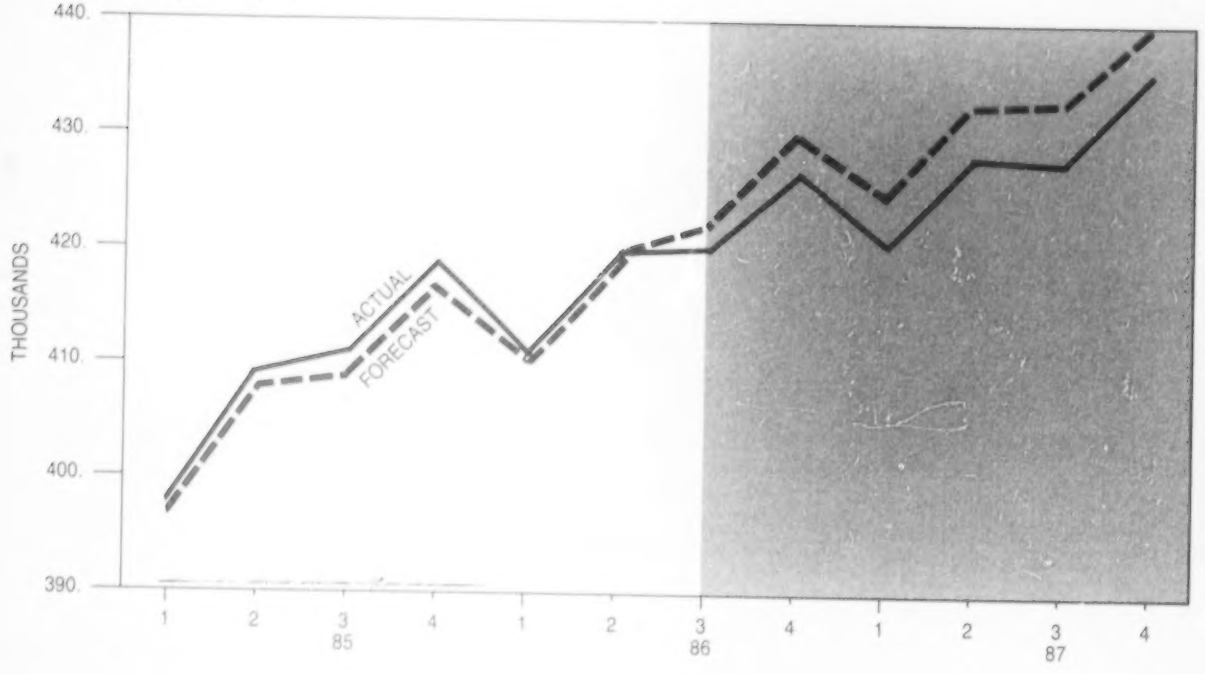


Figure 2e: Columbus Employment Forecast

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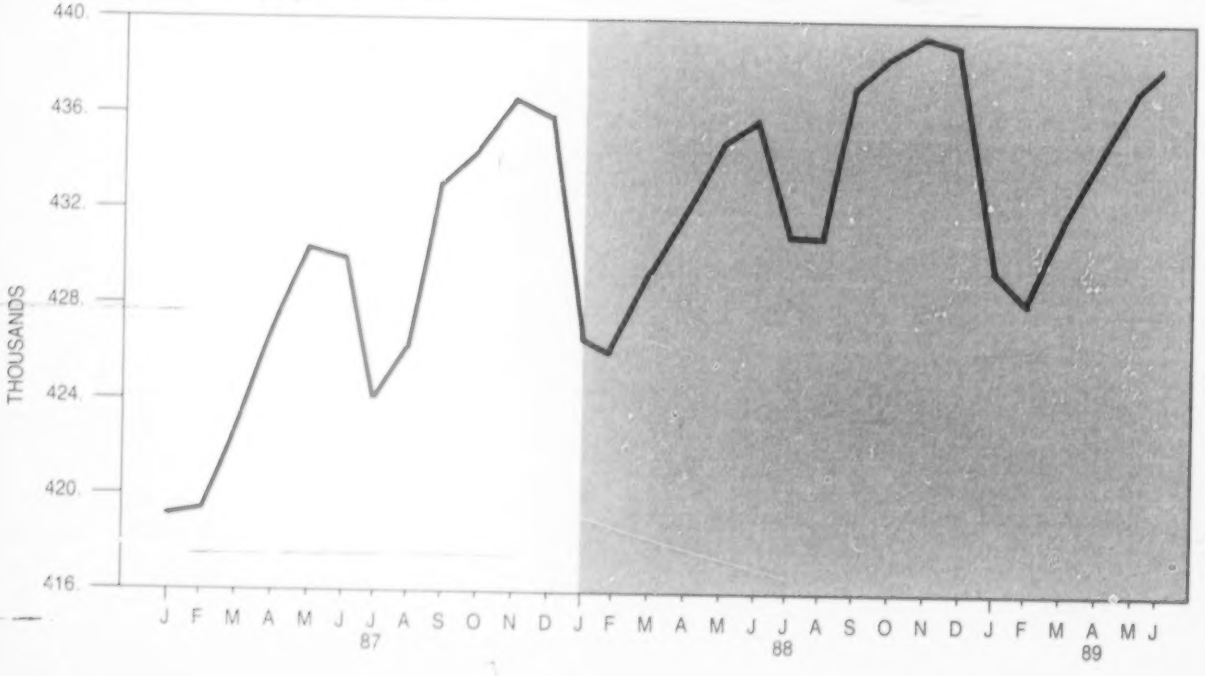
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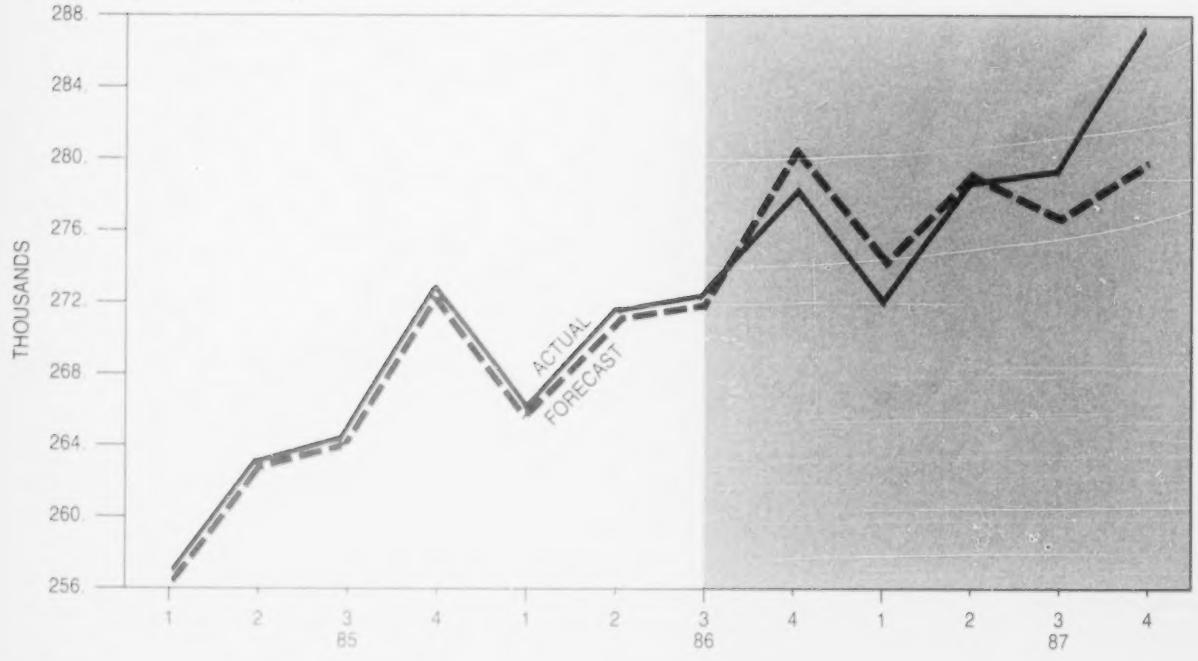
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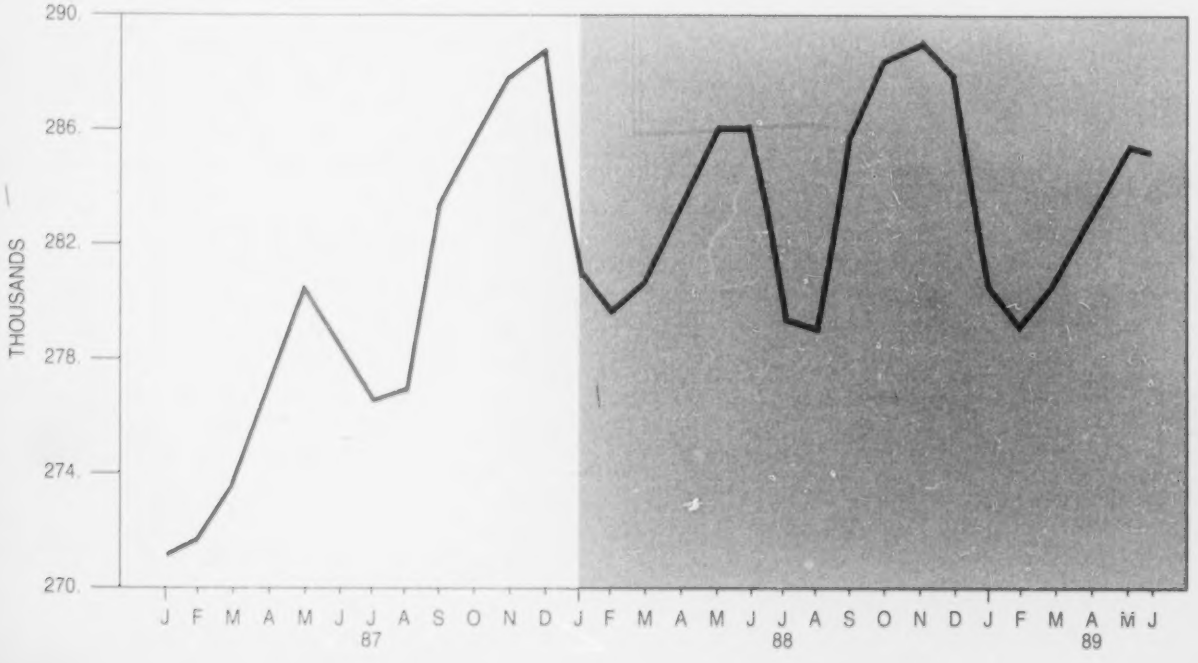
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Figure 1h: Youngstown Employment

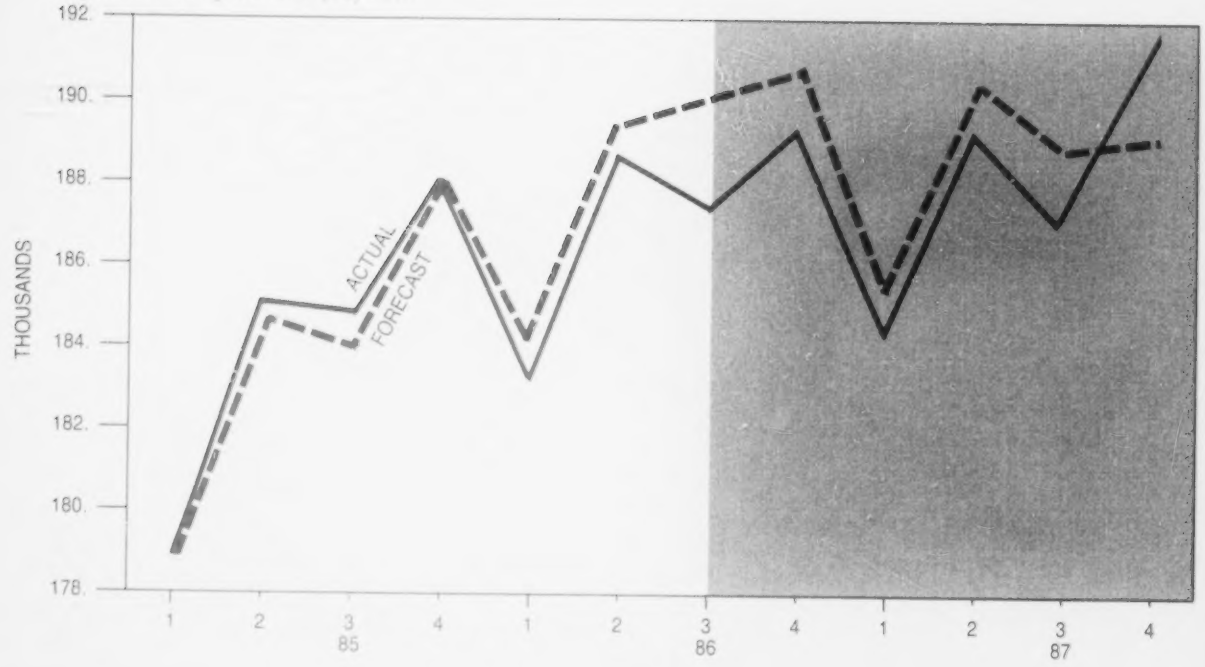
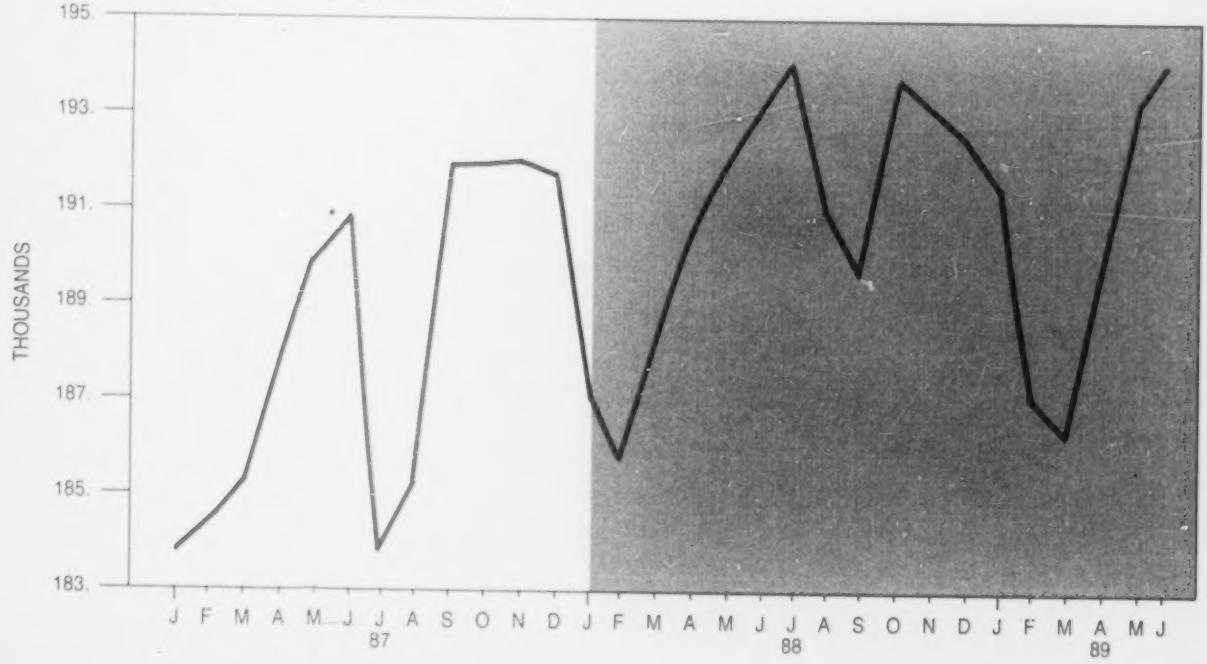


Figure 2h: Youngstown Employment Forecast



Cleveland Area

by Barbara Sherman Rolleston, Baldwin-Wallace College

In Cleveland, and in the U.S. as a whole, total employment growth continued to slow from the peak post-recession rates achieved in 1984. Locally, total employment in 1987 (averages are based on data for the first nine months of 1987) increased by an average of less than one percent over 1986, while U.S. total employment growth in 1987 occurred in the nonmanufacturing sector. Manufacturing employment losses were concentrated in the durable goods sector where all major industry categories suffered employment declines for the third consecutive year. A minor exception is electrical equipment, which showed modest employment growth of less than one percent in 1985. A similar pattern of employment declines in durable goods industries occurred nationally as well, with the exception of transportation equipment, which increased at the national level for the last five years. These employment losses partially reflect the economy's shifting industrial structure as well as post-recession productivity gains in manufacturing. Indeed, for the Cleveland area, sizable losses in manufacturing employment since the last recession have aligned Cleveland's employment base more closely with the national pattern, making the local economy less vulnerable to greater than average employment declines during future recessions.

Employment gains in local nondurable goods industries were marginal (0.16%), but nevertheless reversed the pattern of decline established in 1985 and 1986. All major nondurable manufacturing industry categories showed employment growth in 1987, except for apparel which declined by 9.1 percent. In Cleveland's nonmanufacturing sector, total employment in 1987 grew by an average of 1.7 percent over the level in 1986, once again trailing the national growth rate of 2.4 percent over the same time period. Locally, all major sectors except transportation and wholesale trade showed increases, with the largest increases occurring in construction (4.5 percent) and finance, insurance, and real estate (4.6 percent). While construction employment tends to be quite volatile from year to year, the finance, insurance and real estate sector holds promise as a source of sustained growth in the Cleveland area, as it has since 1984.

The unemployment rate in Cleveland dropped to an average of 6.5 percent in 1987, exceeding the national rate by only two percent. The convergence of the local and national unemployment rates brings them the closest they have been since 1980. However, the national rate of 6.4 percent for 1987 reflected a decrease in the number of unemployed persons as well as an increase in the size of the labor force. In Cleveland, on the other hand, the number of unemployed persons dropped by 9,700 while the number of employed persons grew by only 4,800, causing the overall labor force to drop by 4,900 persons. This represents the first decrease in the local labor force since 1984. Thus, the sharp drop in Cleveland's unemployment rate in 1987 must be interpreted cautiously. Those unemployed workers who do not find new jobs within the Cleveland area may drop out of the labor force or may seek employment opportunities elsewhere. This raises a concern about the local economy's continued ability to create new employment opportunities at a time of generally slow economic growth.

The Cleveland economy can anticipate continued slow growth in 1988. With the national economy expected to grow by only two percent in 1988, a significant improvement in this region's production and employment is not expected. As in the past, growth in the region will continue to be concentrated in the nonmanufacturing sector. Construction employment should continue to grow due to downtown redevelopment projects and also if election year considerations and a sluggish economy keep interest rates from rising. Employment in finance, insurance, real estate, selected services, and retail trade should continue to grow as well.

Little turnaround in the manufacturing sector is expected in 1988. Employment losses in durable goods industries will be moderated, however, if auto makers retain plans for increased production and if low interest rates help boost demand in the housing industry. High capacity utilization rates should help stimulate investment spending, with some benefit to local manufacturers. Over the past few years, much emphasis has been placed on the ability of the weakened international value of the dollar to stimulate export demand for locally produced goods. In 1988 and beyond, however, further growth of Cleveland's economy will increasingly depend on the ability of local industry to improve productivity and be competitive with other regions. Ongoing efforts to publicize the region's economic strengths, to attract high growth industries, and to encourage entrepreneurial ventures must be continued, as they are vital to the area's future economic health.

Columbus Metropolitan Area

by Henry L. Hunker, The Ohio State University

The Columbus Metropolitan Statistical Area (MSA) continues to be a dynamic growth area. In the 15-year period of 1970-1984, during which Ohio had an increase in population of less than one percent, the population of the Columbus MSA (Franklin, Delaware, Fairfield, Licking, Madison, Pickaway and Union counties) increased by 11.5 percent. Within the MSA, increases ranged from a high of approximately 40 percent for Delaware County to just under 7 percent for Pickaway County. Franklin County, which accounts for about 70 percent of the total population of the MSA, had a gain of 7.3 percent.

If attention is focused only upon central city Columbus, a net gain in excess of 26,000 new residents occurred in this period for an overall increase of 4.8 percent. Columbus is the only one of the eight largest Ohio central cities to have had an increase in population. As such, its experience is in striking contrast to that of Cincinnati (-18.3 percent), Cleveland (-24.8 percent), and the five other central cities in the group. The explanation for the continued growth lies, at least in part, in Columbus' continuing (although declining) ability to annex contiguous growth areas of the MSA to the central city.

Projections of growth to the 1990s for the MSA are in contrast to expectations for the state as a whole in which losses are projected to the year 2000. The Columbus MSA is projected to have an increase in population of 5.8 percent from 1985-1995. Franklin County's projected growth rate of 5.7 percent will lag the average slightly. Delaware County is expected to continue as a growth leader with an anticipated 14.8 percent gain; at the other extreme, Pickaway County will probably continue to lose population with an expected 6 percent decline. It is likely that central city Columbus will continue to increase in numbers, but at a declining rate.

In looking ahead to employment in the 1990s, the Columbus MSA "... is expected to continue to be the fastest growing area in Ohio, with a projected 13.7 percent rate of growth between 1986 and 1995..." according to projections by the Labor Market Information Division of the Ohio Bureau of Employment Services. The expected growth, not surprisingly, should occur in the service industries in the Columbus area economy, a sector that has had a 10 percent decline in employment since 1979.

At present, approximately 25 percent of the MSA labor force is employed in wholesale and retail trade; 23 percent in general services; 19 percent in government; and only 17 percent in manufacturing. Clearly, as stated in previous reviews, the Columbus MSA is a prime example of an area economy in Ohio that is highly reflective of the expanding tertiary economy and, as such, is reasonably consistent with national trends. With an additional 86,500 workers expected to be added to the MSA's labor force of 650,000 by 1995, absolute and relative gains for the Columbus MSA are the largest for any Ohio MSA.

The projected increases in employment are accompanied by continued decline in the rate of unemployment both in Ohio and in the Columbus MSA. Six of the seven counties of the MSA have unemployment rates lower than the Ohio rate of 5.8 percent (December 1987); only Fairfield County, with a 6.9 percent rate, is higher. Madison County, with a 3.7 percent rate of unemployment, has the lowest rate in the state. Franklin County has a 4.5 percent rate, but the rate for central city Columbus is, as should be expected, slightly higher at 5.2 percent. As in the case of the state, in general, rates for the Columbus MSA have declined over the year, although at a declining rate.

Two Columbus MSA counties rank among the 10 highest Ohio counties in per capita income (1985 data). Franklin, with an average per capita income of $11,278, ranks 6th, and Delaware County, with $11,093, ranks 7th. Two other counties, Fairfield and Licking, are in the top 22.

Delaware County has the highest percentage change in per capita income in Ohio since 1979 with an increase of 50.6 percent. Franklin County ranks third with a 48.6 percent increase. All but one of the seven MSA counties had increases in excess of the Ohio average of 42.4 percent in this period. The average for the entire MSA was 45.6 percent, with the average per capita income recorded at $10,055. Given the importance of service sector growth in the Columbus MSA, these figures for income are particularly significant.

Current and short-term future trends for the Columbus MSA, then, are most encouraging. This MSA promises to show continued leadership in population, employment, and per capita income growth. It is a leader, as well, in maintaining relatively low unemployment in the labor force. Obviously, the distinguishing characteristics of the Columbus economy — that is, the early and continued importance of a broad-based service economy, and the relatively weaker dependence upon the goods-produc-

ing industrial sector — have allowed for the continued expansion of the central Ohio region. Then, too, the service economy of the Columbus MSA is not limited to the lower wage end of the spectrum. Professional services are vital to the region's growth in government, in its universities, research and development activities, in the banking, insurance, and real estate development subsectors, and the broadguage wholesale and retail trade functions. Columbus is exceptionally well-serve by the interstate highway system and has attracted numerous enterprises linked to a strong, centrally located transportation network. A well-developed communications-based business economy is in place and continues to evolve with growth anticipated in related areas.

Youngstown-Warren Metropolitan Area

by Anthony Stocks and Yih Wu Lee, Youngstown State University

While the overall employment trend in durable goods was very close to the flat forecast for 1987, the fabricated metals sector did somewhat better in creating jobs than expected, and the available fourth quarter statistics suggest that modest growth for both primary metals and fabricated metals may continue into 1988. Indeed, the drop in the dollar offers manufacturers an opportunity to win back domestic markets lost when the dollar's value was high relative to the currencies of international competitors, and to actively seek more foreign sales. This prospect suggests that 1988 may see some improvement in man-hours of work and employment in both durable goods and nondurables in the coming year. On the other hand, the expected slow growth in domestic real output, in the 2 percent to 3 percent range, suggests that manufacturers will have to push export sales, rather than rely on domestic markets to obtain significant new sales.

In the nonmanufacturing sectors, construction man-hours and employment were higher than forecast for 1987, as was also the case for government. Apparently, the loss of the Federal investment tax credit and less generous depreciation schedules did not deter construction spending. In addition, the loss of federal revenue sharing funds did not force significant cuts in local government employment in 1987. As a result, our employment and man-hour forecasts for nonmanufacturing were slightly below actual performance.

What are the prospects for 1988? As noted above, the drop of the dollar against other major currencies offers manufacturers a window of opportunity to gain lost domestic markets and to get new export business. It is hoped that local firms will seize this opportunity which should help increase jobs in the much battered durable goods sectors. However, most of the growth in employment is expected to come from the nonmanufacturing sectors. Relatively stable interest rates should promote continued strength in construction, and the growth trends in employment in services, finance, insurance, real estate and trade are likely to continue in 1988. Thus, the forecast is for employment to rise by about 6,500 from the first to the fourth quarter of 1988, which would further lower the unemployment rate for the metropolitan are by about 3 percentage points.

Akron and Canton

by Jim Shanahan, The University of Akron

All assessments of the region's economic health must be measured against how well we are making a successful transition — a future economic base that is based on an enduring role in technology-driven manufacturing and the service industries.

For Akron / Canton the key questions are:

1. Can the area hold on the the headquarters function?
2. Can the area build upon the opportunity to be one of the premier technology centers in Ohio?
3. Can the area be one of the best places to live in northeast Ohio?

In one sense, answers to these questions are a resounding yes. A more deliberate response brings the recognition that while Akron / Canton is an opportunity waiting to happen, there are no guarantees — the region could come up short in its goal of economic revitalization.

Akron's total employment in 1986 was only about 5 percent higher than the 1970 level. In Canton the story is virtually the same.

Economic Recovery: Far from Complete

Economic recovery is far from complete across northeast Ohio. The Youngstown MSA is the worst off, having recovered by the end of 1986 only 29 percent of the jobs lost in the years from 1979-1983 (Table 1). The Akron PMSA and Cleveland MSA fared the best, recovering 58 percent and 57 percent, respectively, of jobs lost during the recession. The Canton MSA recovered only 47 percent of jobs lost.

The Dayton-Springfield and Toledo MSA's, which suffered a recession nearly as severe as Akron and Canton, surpassed their 1979 employment level in 1985-1986 (Table 1). By 1986, Dayton-Springfield had gained 133 jobs for every 100 lost from 1980 thru 1983.

New Jobs are in Services

The Service Industries (SIC 70-89) — everything from hotel services to R & D laboratories — added jobs to the local economy even during the recession (Table 2). Akron's job growth in service industries increased to 2 percent per annum after 1983, but Canton experienced a modest decrease. In Dayton-Springfield, where economic recovery has been strong, service industries jobs have increased at 6 percent per year since 1983.

Even by the end of 1987, the Akron MSA still remains about 6,100 jobs below the 1979 high, or 2.3 percent below 1979 employment levels (Table 3). Canton continues to lag in its recovery. Employment levels in 1987 at Canton workplaces were 3.0 percent below the 1979 high.

Population loss continues to accompany a lukewarm economy in Akron. Population estimates for 1986 reveal a further drop since 1984. Despite this, the number in the labor force grows at about one half of one percent per year as an increasing proportion of women and younger persons continue to enter the labor force.

While the loss of residents in the Akron MSA began during the 1970's, Canton's population loss started after 1980 as the local economy was gripped by a severe recessionary focus. The recent 1986 population estimates reflect increased net out-migration.

With the demand for workers in both Akron and Canton areas still well below 1979 highs, and labor force participation increasing, net out-migration is almost inevitable. Job growth must be greater in the future to turn around population losses.

Table 1: Economic Downturn/Recovery, 1979-1986

Total Jobs	Employment 1,000s			Employment Change 1,000s		Percent Recovery
	1979	1983	1986	1979-1983	1983-1986	
Akron, PMSA	270.9	244.7	260.0	-26.2	15.3	58.4
Canton, MSA	160.8	143.8	151.5	-17.4	8.1	46.6
Cleveland, PMSA	919.8	829.8	880.8	-90.0	51.0	56.9
Youngstown, MSA	213.9	117.5	188.2	-36.4	10.7	29.4
Dayton-Springfield, MSA	408.8	372.3	420.9	-36.5	48.6	133.1
Toledo, MSA	268.2	245.7	273.0	-22.5	27.3	121.3
Ohio	—	—	—	—	—	97.6

Manufacturing Jobs	1,000s			1,000s		Percent Recovery
	1979	1983	1986	1979-1983	1983-1986	
Akron, PMSA	85.6	65.2	66.8	-20.4	1.6	7.8
Canton, MSA	59.1	43.5	46.2	-15.6	2.7	17.3
Cleveland, PMSA	276.3	207.3	205.5	-69.0	-1.8	0.0
Youngstown, MSA	79.9	52.8	52.0	-27.1	-0.8	0.0
Dayton-Springfield, MSA	122.5	95.5	106.1	-27.0	10.6	39.2
Toledo, MSA	77.4	59.6	63.6	-17.8	4.0	22.4
Ohio	—	—	—	—	—	13.7

Source: Ohio Bureau of Employment Services, Ohio Labor Market Information, Labor Market Projections

Table 2: Service Industry (SIC 70-89) Employment Growth, 1979-1986

Service Jobs	Employment 1,000s			Employment Change 1,000s		Average Annual Percent Increase	
	1979	1983	1986	1979-1983	1983-1986	1979-83	1983-86
Akron, PMSA	49.7	52.3	55.4	2.6	3.1	1.1	2.0
Canton, MSA	28.1	30.7	32.4	2.6	1.7	2.3	1.8
Dayton-Springfield, MSA	79.5	84.7	100.6	5.2	15.9	1.6	6.2
Ohio	806.0	873.0	999.0	67.0	126.0	2.1	4.8

Source: Ohio Bureau of Employment Services, Ohio Labor Market Information, Labor Market Projections

Major Events of the Last Year in Akron

The last year or so has produced both highly positive and disturbingly negative patterns. A positive note is the building boom in the Montrose area (west of Akron) and Chapel Hill (north of Akron) were commercial / retail expansions as well as residential building is

occurring. This increased activity began to appear in the 1987 employment data for the Akron PMSA; construction employment is up 13 percent from 1986 and retail trade jobs increased by 4 percent, keeping pace with growth in service jobs.

Summit and Portage counties (which comprise the Akron PMSA) appear to be continuing to win in the exchange of residents with Cuyahoga County. Former Clevelanders are said to be a major part of the new home buyers as far south on I-77 as Route 18 (35-40 minutes driving time from downtown Cleveland).

The bad news stems mostly from the *Fortune* 500 firms headquartered here. The first serious threat to the community's sense of economic progress was the attempted takeover of Goodyear and the massive restructuring of the company in the months that followed. This crisis was followed by the announcement that Firestone would move its world headquarters to Chicago, moving about 200 employees. (In the final play, Bridgestone bought Firestone with the result that corporate decision-making is now done in Japan, not Chicago). The overall impact of these events on the economic health of the Akron economy is still uncertain, although the early indications are that no major net job losses are likely.

Manufacturing employment in Akron and Canton has remained about constant despite the boom in the capital goods industry due to the decreasing value of the dollar. Firms have opted to pay overtime rather than hire additional workers.

Table 3: Growth/Decline in Average Annual Non-Agricultural Employment in the Akron PMSA

Industry	1979	1986	1987	% Change Since 1979
Construction	9,200	8,700	9,800	6.5
Mining	333	700	—	—
Manufacturing	85,600	66,780	66,500	-22.3
Nondurable Goods	43,900	31,900		
Durable Goods	41,700	34,800		
Transportation and Public Utilities	15,200	12,990	13,300	-12.5
Wholesale Trade	11,900	13,570	13,800	16.0
Retail Trade	46,200	50,040	52,000	12.6
Finance, Insurance and Real Estate	9,400	10,020	10,500	11.7
Services	49,700	55,430	57,800	16.3
Government	43,200	41,820	42,300	-2.1
Total	270,900	260,000	264,800	-2.3

Table 4: Comparison of Industry Employment Projections, 1986-1995 State of Ohio and Eight Large Metropolitan Areas (Total Nonfarm Wage and Salary Employment)

Area	1986 Annual Employment 1000s	1995 Projected Employment 1000s	Change in Employment 1986-95* 1000s	Percent Change 1986-95*
Columbus, MSA	630.4	716.9	86.5	13.7
Cincinnati, PMSA	651.2	721.5	70.3	10.8
Dayton-Springfield, MSA	420.9	465.2	44.3	10.5
Cleveland, PMSA	880.8	965.0	84.2	9.6
State of Ohio	4,475.2	4,887.9	412.7	9.2
Akron, PMSA	256.0	283.1	23.1	8.9
Toledo, MSA	273.0	296.5	23.5	8.6
Canton, MSA	151.8	162.4	10.6	7.0
Youngstown-Warren, MSA	188.2	199.9	11.7	6.2

*Computed from unrounded data.

State of Akron/Canton 1995 Industry Employment Projections

Between now and 1995, Akron — at about 1 percent per year — is ahead of only Youngstown, Canton and Toledo in projected new job formation. Only Youngstown is below Canton (Table 4). It could be 1990 or later before Akron's total employment base will reach its prior peak set in 1979. Manufacturing jobs are projected to drop by 1.4 percent in Akron and 4 percent in Canton, mostly in durable goods — fabricated metals, metal stamping, and primary metals (Table 5). About half the new jobs in service-producing industries are in the services category (personal, business, repair, etc.).

Longer-term forecasts by models tend to be conservative. Current annual increases in employment are

nearly double those forecast through 1995. Unless a hard recessions intervenes, actual annual growth rates should exceed those projected.

It is hard to agree that Cleveland will do better in the future than Akron. Economic recovery in Akron and Cleveland has been virtually at the same pace since 1983.

Economic Forecasts for Akron/Canton Economies

The short-term forecast for the Akron and Canton areas provided in the article by James P. Lesage and Michael Magura in this issue projects a downturn in both economies after the first half of 1989. Past forecasts by Lesage and Magura have generated projections consistently below actual employment (see Table 1 of Lesage and Magura, this issue). The current projections might be underestimates too. In any event, without any rationalization or justification as to why these projections are reasonable, it is hard to accept the validity in foresight planning.

Table 5: Akron and Canton Industry Employment Projections, 1986-1995

	Akron PMSA			Canton MSA		
Industry	Projected 1995 Employment	Change 1986-1995 Projected	Percent	Projected 1995 Employment	Change 1986-1995 Projected	Percent
TOTAL	283.1	23.1	8.9	162.4	10.6	7.0
Goods-Producing Industries	75.1	-1.1	-1.6	48.0	-2.0	-4.0
Mining	0.7	0.0	-5.7	1.0	-0.1	-7.5
Construction	9.0	0.3	3.1	5.6	0.2	4.1
Manufacturing	65.4	-1.4	-2.1	41.4	-2.1	-4.8
Durable Goods	33.2	-1.7	-4.9	30.0	-2.1	-6.5
Nondurable Goods	32.2	0.3	1.0	11.4	0.0	0.1
Service-Producing Industries	208.1	24.3	13.2	114.3	12.5	12.3
Transportation & Utilities	13.7	0.7	5.5	5.9	0.1	1.7
Trade	70.2	6.6	10.4	42.4	4.2	11.1
Finance, Insurance, Real Estate	11.3	1.3	12.9	7.5	1.0	15.9
Services	69.3	13.8	25.0	39.6	6.3	18.9
Government	43.6	1.8	4.3	18.9	0.9	4.8

Source: Ohio Bureau of Employment Services, Ohio Labor Market Informatio, Labor Market Review.

Toledo Metropolitan Area

by Michael Magura, University of Toledo

Toledo MSA employment in 1987 increased to 279,000, or a 2.7 percent increase over that of 1986. As was true for 1986, the increases occurred in the nonmanufacturing industries while manufacturing employment declined by about 2 percent. The primary industries which saw increases during the year were construction, wholesale and retail trade, and services. Unemployment stood at an average of 7.3 percent during 1987; however, by December it had fallen to 6.3 percent. Nevertheless, this was still slightly higher than the unemployment rate for Ohio as a whole. In general the employment situation in Toledo was favorable for 1987.

It is anticipated that the situation will change somewhat during 1988. The first half of 1988 is expected to show increases in employment, again primarily in the nonmanufacturing area. A slight increase in manufacturing jobs is likewise foreseen. However, the employment outlook for the second half of the year looks less promising. Some declines in employment are predicted during the last quarter of the year, perhaps suggesting a slight economic weakening during 1989.

On balance, overall employment and the associated level of economic activity in the Toledo MSA are seen as improving during 1988. Employment in the area should increase by about 2 percent. The picture, however, begins to look cloudly during the closing months of 1988 and the beginning of 1989.

The downtown area of the Dayton metropolitan area is beginning to show signs of rejuvenation. Approximately 700,000 square feet of new office and retail space will be coming on line by 1989. The recently renovated Dayton Convention Center is expected to attract new business to the downtown area. Plans are under way to create new housing and make the downtown the recreational, entertainment and cultural center of the greater Dayton region. The downtown economy is being pulled up by strong growth in the surrounding suburban communities, but a stronger downtown is viewed as vital to continued suburban growth.

In summary, Dayton's economy is expected to remain strong

through the remainder of 1988 and on into 1989. This outlook is predicted on the belief that the U.S. economy will not be plunged into a recession over this period. Dayton's employment growth will slow, however, as labor markets continue to tighten and U.S. economic performance slows.

Dayton Area

by Robert Premus, Wright State University, Dayton, Ohio

The Dayton metropolitan economy continues to exhibit strong employment growth. Since 1980, Dayton's economy added more than 80,000 new jobs, an increase of about 23 percent. In contrast, the nation's economy experienced an employment gain of about 10.2 percent over this period. As a result, Dayton's unemployment rate plunged below the national level to 5.1 percent in 1987 from a high of 11.3 percent in 1982. Employment growth is expected to remain strong through the remainder of 1988 and into 1989, although at a slightly slower pace. The region's unemployment rate is not expected to change from its current level.

Technology has played a key role in the strong performance of Dayton's manufacturing and service sectors. Dayton's five major auto plants and its numerous metalworking companies have reorganized their production around new technology, as have other companies such as NCR, Mead and Reynolds & Reynolds. One consequence is that Dayton's manufacturers are more cost competitive and they offer better quality products. These changes, combined with a significant decline in the value of the dollar, have opened up new international markets for many of Dayton's companies.

An invigorated entrepreneurial climate is another big factor in the continued strong performance of Dayton's economy. New companies, especially in the advanced technology sectors, are being created at above national rates. As a result, *INC.* magazine, reporting on David Birch's work, increased Dayton's position from 98 to 71 among 239 U.S. metropolitan regions, ranked by business starts and high growth companies.

Wright Patterson Air Force Base (WPAFB), which houses six major research laboratories, continues to exert a strong, positive influence on Dayton's economy. Base employment has remained very steady over the years and is expected to continue to do so in the foreseeable future. What is new in Dayton is the increased spin-off of aerospace and advanced technology activities from WPAFB research laboratories and procurement programs. The recently completed I-675 Corridor, connecting I-70 and I-75 around Dayton's eastern and southern perimeters, has been a boon to regional high tech growth. Numerous new companies now occupy an ever-increasing availability of office and research space along the corridor.

The Dayton region continues to attract foreign-owned businesses. A study commissioned by the Dayton Area Progress Council, consisting of business and civic leaders, found that Dayton is ideally located along I-75 between Detroit and the Mid-south region for Japanese auto components and parts suppliers. New foreign investment is expected to continue to contribute to economic expansion in the region. *(Editor's Note: See Donald T. Iannone's article on Japanese Auto Investment in Ohio in this issue).*

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In summary, Dayton's economy is expected to remain strong through the remainder of 1988 and on into 1989. This outlook is predicted on the belief that the U.S. economy will not be plunged into a recession over this period. Dayton's employment growth will slow, however, as labor markets continue to tighten and U.S. economic performance slows.

Policy Implications Of Foreign Business Recruitment as an Economic Development Strategy:

The Case of Japanese Automotive Investment in the United States

by Donald T. Iannone

Abstract

Foreign firms have increased sharply their investments in the United States in recent years. Given a continuation of the current economic and political climate, this trend is likely to extend into the future. Japanese businesses, in particular, have increased their investment stake in the U.S. These investments have been targeted, in many cases, to strategic economic sectors, like the automotive industry, which have served as the traditional "wealth builders" for nations around the world. Ohio and other states in the Great Lakes region have been affected most dramatically by increased Japanese automotive investments in the U.S.

In their search for new jobs and wealth, state and local officials have increased their attention to foreign investment recruitment as an economic development strategy. This article examines the recent surge in Japanese automotive investment as a case study of how the foreign direct investment process works and discusses the impact of these investments on local economic development in Ohio and other Great Lakes states.

This article examines the impact of current Japanese auto-related investments on U.S. industry, identifies likely future trends related to this issue, and recommends selected policy actions which state and local officials should consider in view of increased foreign investment in the U.S. automotive industry. While viewed as a valid and appropriate strategy for local economic development, foreign business recruitment raises several complex issues which public policy makers and economic development officials must confront in the future. This article sheds light on these issues and how local policy makers can better respond.

Introduction

In 1986, Cleveland State University (CSU) conducted an extensive study on Japanese automotive investments in the United States for the Ohio Department of Development. The purpose of the study was to identify the extent of Japanese investment in the U.S. automotive industry and to explain why a "surge" in investment by Japanese companies was taking place. The underlying motivation for the study was to understand the economic development implications of these investments for the State of Ohio. Since its 1986 study, CSU has continued to monitor Japanese and other foreign direct investment activities in Ohio and other Great Lakes states.

This article describes the major findings and conclusions of CSU's initial Japanese automotive investment study, describes Japanese automotive investment activities in the U.S. in the past two years, and discusses some of the more important public policy issues raised by foreign investment recruitment as an economic development strategy.

Foreign firms have grown in importance as a source of investment capital in the U.S., and as a result greater attention is being given to these firms by state and local officials as an economic development target (Iannone, 1986; Tolchin, 1988). This article argues that the foreign direct investment process, as exemplified by Japanese automotive investments in the United States,

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introduces several complex issues which public policy makers and economic developers must confront in assisting foreign firms to make investments in U.S. states and communities.

This article takes the position that foreign direct investment is a valid and appropriate target for local economic development efforts where these investments help to create local jobs, expand the long-term local wealth base, and integrate local economies into the growing world economy. Furthermore, it is suggested that local and state officials should systematically develop these foreign investments into new sources of economic opportunity. Those interested in recruiting foreign business investment as an economic development strategy should, however, recognize and prepare for the short and long-term effects of these investments on local economies and domestic industries which are highly sensitive to foreign competition. Public officials, in particular, should be aware of the growing concern by certain interest groups, especially organized labor and certain trade-sensitive industries, about the possible competitive effects of foreign investment on domestic industries, as well as concern over the increased foreign ownership of U.S. business assets (Kotlowitz, A. and Buss, D.: *Wall Street Journal*, Sept. 24, 1986; Tolchin, 1988; *Metalworking News*, April 27, 1987; others).

From a more narrow perspective, these concerns may be viewed as unique to the foreign investment issue. From a broader perspective, concerns associated with the impact of increased foreign investment in the United States may be seen as reflective of general issues in local economic development related to who pays the costs associated with development, and who benefits and how much. The author believes that foreign investment projects pose a combination of unique problems and common issues to state and local economic development officials.

Current efforts by Japanese companies to increase their investment stake in the U.S. automotive industry provide a valuable case study to observe how the foreign direct investment process works, and what role economic development officials play in this process in states like Ohio.

Recent Trends: Foreign Direct Investment in the United States

Foreign direct investors invested $31.5 billion in the U.S. in 1986 to acquire existing or to establish new businesses (Herr, 1987). This figure compares to $23.1 billion invested by foreigners in 1985 and only $10.8 billion in 1982. Many sources, including the International Trade Administration of the U.S. Department of Commerce, the Conference Board, and others predict that foreign investment in the U.S. will continue to grow in the future.[1] Table 1 presents data on recent foreign direct investment trends in the U.S. These data suggest that while the dollar value of the investments is growing, the number of individual investments is decreasing.

Other important observations may be made about the data presented in Table 1:

1. Foreign acquisitions of existing U.S. businesses account for the vast majority of foreign dollars invested in the U.S. In 1981, acquisitions represented 78 percent of the total dollar value of foreign direct investments in the U.S. In keeping with this trend, acquisitions constituted 81 percent of the total dollar value of foreign direct investments in the U.S. in 1986.
2. While the value of new businesses created in the U.S. by foreign investors has been increasing, these type investments are still relatively small compared to the value of foreign acquisitions. During the 1981-1986 period, the value of new businesses created by foreign sources ranged from a high of 40 percent of total value of foreign investments in 1982 and 1983 to a low of 13 percent of this total in 1985.
3. Overall, the number of foreign direct investments has been declining since 1981. The number of acquisitions has fluctuated over the 1981-1986 period, reaching a high of 462 in 1981 and a low of 299 in 1983. The number of new business establishments by foreign investors has fallen from 870 in 1981 to 321 in 1986. In the past, the trend has been for new establishments to greatly exceed acquisitions. In 1985 and 1986, this trend changed, as acquisitions outnumbered new establishments.
4. By far, existing U.S.-based foreign affiliates (foreign firms already here) have been the largest source of foreign investment dollars. These affiliates account for 75-80 percent of the value of foreign direct investment. Historically, foreign direct investors have made the greatest number of investments in the U.S. This pattern was altered in 1985 and 1986 when U.S.-based affiliates of foreign companies made more investments than foreign direct investors.

Investment bankers and government officials monitoring foreign direct investment activities indicate that the trends described earlier are likely to continue throughout this decade.[2] Historically, European

Table 1: Recent Trends: Foreign Direct Investment in the United States

TYPE	VALUE OF INVESTMENTS ($MILLIONS)						NUMBER					
	1981	1982	1983	1984	1985	1986	1981	1982	1983	1984	1985	1986
1. ALL INVESTMENTS	23,219	10,817	8,091	15,197	23,106	31,472	1,332	1,108	775	764	753	659
a. Acquisitions of U.S. Businesses	18,151	6,563	4,848	11,838	20,083	25,467	462	395	299	315	390	338
b. Newly-Estab. Businesses	5,067	4,254	3,244	3,361	3,023	6,005	870	713	476	449	363	321
2. INVESTOR TYPE	23,219	10,817	8,091	15,197	23,106	31,472	1,521	1,218	850	831	817	714
a. Foreign Direct Investors	6,158	3,954	2,528	4,181	4,225	6,309	979	720	460	434	320	316
b. Existing U.S.-Based Foreign Affiliate	17,060	6,863	5,564	11,016	18,881	25,164	542	498	390	397	497	398

Source: *Survey of Current Business*, May 1987, U.S. Bureau of Economic Analysis

investors have favored acquisitions over new business establishments and It is expected that this preference will continue. Sources interviewed for this study indicate that Japanese investors will increase their number of acquisitions in the future. This represents a change in the Japanese strategy, which earlier favored direct investments in new businesses in the United States.

Significant changes have occured in the number of foreign direct investments by the size of the investment. Table 2 presents data analyzing foreign investment by the size of investment outlays.

Data in Table 2 indicate that the overall number of foreign investments has been steadily decreasing since 1981, with most of this reduction being accounted for by the pronounced drop in the number of smaller investments, or those in the less than $10 million size category. Meanwhile, the number of larger investments, or those in the $100 million and larger category have increased. This suggests that fewer, but larger, investments is the apparent current direction. These larger

TABLE 2: Number of Foreign Direct Investments By Size of Investment Outlay

SIZE CATEGORY	YEARS					
	1981	1982	1983	1984	1985	1986
All Investments	1,332	1,107	775	764	753	659
$1 billion or more	3	0	0	0	2	5
$100-999 Million	34	18	11	31	33	46
$10-99 Million	206	191	156	176	228	214
Less than $10 Million	1,089	898	608	557	490	394

Source: *Survey of Current Business*, May 1987, U.S. Bureau of Economic Analysis

investments have predominantly involved the acquisition of existing U.S. businesses. The situation in Ohio appears to be consistent with the national pattern in this regard. This is illustrated by the 1987 acquisition of White Consolidated Industries (WCI) of Cleveland by Electrolux of Sweden and the recent acquisition of Firestone Tire in Akron by Bridgestone Tire of Japan.[1]

Factors Influencing Foreign Direct Investment

Several factors influence a foreign firm's decision to invest in the United States. Both market and non-market factors influence foreign investment decisions. Generally, market factors include: access to the U.S. market; proximity to required raw materials; the desire to improve production efficiencies through new technology; efforts to respond to competition through market diversification or risk avoidance; and broader macroeconomic factors such as exchange rates and capital markets. Non-market variables, on the other hand, refer generally to the influence of public policy factors, including threats of market protection, available government incentives, and other governmental influences.

Under most circumstances, the desire to access the U.S. market is the most compelling factor causing

foreign direct investment (Iannone, 1986; Boddewyn, 1985; DeWitt, 1986; Grosse, 1981). The United States offers the largest, richest, and most unified market in the world, and many foreign firms see the U.S. as a very attractive market to serve. It is not uncommon for successful foreign firms, especially in Europe and Asia, to run out of market in their home countries, and therefore turn to the lucrative U.S. market as an outlet for their goods and services.

Table 3: Incentives Offered to Attract Automobile Plants

Company and Location	Investment	Date of Completion	Estimated Annual Production	Estimated Employment	Direct Incentives	Indirect Incentives
Toyota Motor Corp. Scott County, Ky.	$800 million	1988	200,000	3,000	$15 m for land purchase $20 m for site prep. $10 m for skills center $33 m for job training $47 m for highway improvements Total: $125 million	Educational programs for Japanese employees and their families
Mazda/Ford Motor Flat Rock, Mich.	$450 million	Sept. 1987	240,000	3,500	$19 m for job training $4 m for road improvements $20 m low-interest loan for sewers & site improvements $500,000 small cities loan $1 m federal grant for sewers $3 m for rail spur $4.5 m for rail improvements	100 percent tax abatement for 14 years Mazda will pay $100,000 per year to city in lieu of taxes
Volkswagen AG East Huntington, Pa.	$200 million	1978	220,000 projected 90,000 actual	4,000-5,000 2,500 actual	$40 m low-interest loan $6 m loan from state $25 m for rail & highway Total: $71 million	Local tax abatements for 5 years VW makes payments in lieu of taxes.
Nissan Motor Co. Smyrna, Tenn.	$450 million $745 m actual	1983	120,000 projected 240,000 actual	2,600 3,100 actual	$7 m for job training $12 m for road improvements Total: $19 million	Local property tax abatements for 20 years Nissan makes payments in lieu of taxes
Honda of America Marysville, Ohio	$250 million $490 m actual	1982	150,000 projected 330,000 actual	2,000 3,300 actual	None: Ohio provided a $16.4 m grant to assist construction of nearby motorcycle plant (1979)	Property tax abatement on buildings.
General Motors Springhill, Tenn.	$3.5 billion	1988	400,000 to 500,000	6,000	$20 m for job training $50 m for road improvements Total: $70 million	Local property tax abatements for 40 years GM will make payments in lieu of taxes
Mitsubishi/ Chrysler Bloomington/ Normal, Ill.	$500 million	1988	180,000	2,500	$17.8 m for road improvements $11 m to buy plant site $11.4 m for water & sewer improvements $40 m for job training $3.1 m for roads, water, & sewers Total: $83.3 million	50% state property tax abatement for 10 years $14 m bonds to meet pollution control standards $8.6 m investments tax credit $8 m state sales tax credit $2.4 m savings on water & sewer fees $2 m local utility tax credit

a. Initial figures in production and employment columns are those projected at time decision to locate was made. Actual production and employment are indicated as such.

b. Tennessee did not offer incentives until after General Motors had decided on the Springhill location. General Motors has now scaled back its estimated production and employment.

Source: Blaine Liner and Larry Ledebur, "Foreign Direct Investment in the United States: A Governor's Guide," National Governors' Association, Washington, D.C., 1987.

The role of government policy has increased as a factor influencing foreign investment. Legislation aimed at limiting access to the U.S. market by foreign firms has become more popular in the U.S. Congress today. Many believe that the threat of "protectionist" legislation has accelerated investment by foreign firms in an attempt to reduce the likelihood of legislated trade restrictions by the U.S. Congress.[4] Now, concern is growing about increased foreign investment in U.S. businesses. Generally, these latter concerns center on the issue of increased foreign "ownership" of U.S. business assets and the return of profits earned in the U.S. to the home country of the foreign investor.

The Role of States and Cities in Encouraging Foreign Investment

Increasing criticism has been directed at state and local officials eager to attract their share of the "foreign-jobs bonanza." This is illustrated by a recent book entitled *Buying Into America* by Susan and Martin Tolchin:

> Most Americans don't care where the money comes from as long as it provides jobs and stimulates economic growth. Most mayors and governors don't care who pours money into their financially beleaguered cities and states to revive their failing economies, and most Federal officials don't seem to care who finances the national debt. Under pressure to bring home the bacon, politicians have paid scant attention to the long-term economic, political, and social effects of their country's deepening dependence on foreign money (Tolchin, 1988).

Both states and cities have increased their efforts to recruit foreign investment. A 1986 study by the National Association of State Development Agencies (NASDA) indicates that state governments give considerable attention to the issues of foreign business recruitment and international trade development (NASDA, 1986). A 1984 study by the Council of Great Lakes Governors examined the international business development programs of the six states comprising the region (Council of Great Lakes Governors, 1984). Finally, a 1986 survey of Ohio communities for the Ohio Development Association by Cleveland State University revealed that cities and counties in Ohio planned to give increased attention to foreign business opportunities in the future (Economic Development Program, The Urban Center, Cleveland State University, 1986).

Most of the Japanese automotive "transplants" locating in the U.S. have received public incentives from state and local governments to encourage their location. Table 3 identifies the public subsidies presented to five of the seven auto assembly facilities. Interviews with state and local officials indicate that many of the Japanese parts and component suppliers to these assembly plants also received tax and financial inducements. Data on incentives to supplier plants are not currently available. This issue has met with considerable opposition in some cases; specifically, Mazda in Flat Rock, Michigan and Toyota in Georgetown, Kentucky.[5]

All of the Great Lakes states operate programs to recruit foreign investment and expand international trade for local firms. Most states across the country operate international programs. Almost 40 U.S. states have development offices abroad. A profile of the international business programs operated by states in the Great Lakes region is provided in Table 4. Recent interviews with development officials from these states indicate that the most aggressive effort is being placed on the recruitment of Japanese businesses, especially those supplying products to the automotive industry.[6]

An increasing number of cities, both large and small, in the Great Lakes region have expanded efforts to recruit foreign business investment. These efforts have become an active part of these communities' overall economic development strategies. Most of the larger Ohio cities have initiated such programs in an effort to land their share of foreign dollars invested in Ohio. Perhaps one of the most comprehensive city international programs exists in Columbus, Ohio, which has created the Columbus International Trade Development Program — a joint venture between the city's Department of Development, the Columbus Area Chamber of Commerce, the Cincinnati District Office of the U.S. Department of Commerce and the Ohio Department of Development. The Columbus group travels regularly to Europe and Asia to develop trade and investment opportunities. Columbus and the Central Ohio area have been quite successful in convincing Japanese businesses to locate in their area. While much of this investment is related to Honda of America's production facilities in Marysville and Anna, Ohio, a variety of Japanese businesses representing other industries have established operations in the area. Most recently, Mitsubishi Bank has opened a business development office in Columbus. The bank is hopeful in assisting Japanese and Ohio automotive

industry suppliers to establish joint ventures and other types of cooperative business arrangements in the future (personal communications with Mitsubishi Bank officials, April 1988).

Other Ohio cities also operate full-time international business development programs. Cleveland, through its Cleveland World Trade Association and the Greater Cleveland Growth Association, has operated an active trade and investment program for several years. Cincinnati has an active program, which like Columbus, has been successful in attracting several Japanese firms. The other large Ohio cities — Toledo, Dayton and Akron — also operate trade and investment development programs as well.

Several smaller Ohio cities have either initiated their own international programs and/or work cooperatively with statewide or sub-state regional development programs in recruiting of foreign investment. Some smaller communities have focused almost exclusively on the recruitment of Japanese manufacturers, in light of the increased presence of these firms in Ohio in the past 2 to 3 years. Examples include St. Marys, Findlay, Troy, Xenia, Bellefontaine, Lebanon, Greenville, Mason and others.

Foreign-owned businesses account for a considerable number of jobs in the Great Lakes region, as Table 5 indicates.

The data presented in Table 5 indicate that Western European countries account for almost two-thirds of all jobs related to foreign-owned businesses in the Great Lakes region. This is very consistent with the 63 percent European share of all foreign-controlled jobs in the United States. The Great Lakes region parallels the nation in its share of Canadian and Japanese-controlled jobs as well.

Table 4: International Programs Operated by Great Lakes States

State	State International Program Budget FY 86	Trade Development	Investment Recruitment	Foreign Office Locations	Development Efforts Aimed at Recruiting Japanese Transplants
Ohio	$2,500,000	yes	yes	Brussels, Tokyo, Lagos-Nigeria, PRC	yes — major effort
Indiana	$ 675,000	yes	yes	Brussels, London, Tokyo	yes — major effort
Illinois	$2,600,000	yes	yes	Brussels, Osaka, Hong Kong, Sao Paulo (Brazil) Shenyang, PRC	yes — major effort
Michigan	$1,966,000	yes	yes	Brussels, Tokyo	yes — major effort
Minnesota	$2,200,000	yes	yes	Oslo, Stockholm	no
Wisconsin	$ 725,000	yes	yes	Frankfurt, Tokyo	minor effort

Source: CSU Analysis of *NASDA State International Program Database*

Table 5: Employment Impact of Foreign-Owned Businesses In The Great Lakes States In 1985

State	All Countries 1981	All Countries 1985	Change 1981-85	Canada 1985	W. Europe 1985	Japan 1985
Ohio	99,850	137,877	38.0%	16,363	90,402	7,713
Indiana	46,992	54,759	16.5%	12,897	36,534	3,514
Illinois	113,605	144,312	27.0%	23,605	94,640	14,421
Michigan	65,939	81,734	24.0%	17,562	49,663	9,607
Minnesota	33,048	35,450	7.3%	11,838	21,410	1,240
Wisconsin	62,184	63,226	1.7%	15,930	44,483	471
6-State Total	421,618	517,358	22.7%	98,195	337,152	36,966

Source: CSU Analysis of Bureau of Economic Analysis (BEA) Data Published in May 1987 Issue of *Survey of Current Business*.

Japanese Investment in the United States

The dollar value of foreign investment from Japanese sources grew by a phenominal 663 percent between 1981 and 1986: Japanese businesses invested $616 million in the U.S. in 1981 compared to $4.7 billion in 1986.

In 1986, U.S. investments by Japanese sources were heavily concentrated in real estate (56 percent of total) and manufacturing (21 percent). Wholesale trade and finance were two other U.S. industries receiving significant Japanese investment in 1986.

The following states topped the list as major locations for Japanese investment through 1985 (most recent year for which comparative data are available): California, New York, Illinois, New Jersey, Texas, Hawaii, Florida and Ohio.

Most Japanese investments have been made on the East and West Coasts. An increasing number, however, are being made in the Great Lakes region. These investments are concentrated heavily in the automotive industry, which has been a traditional economic strength of the Great Lakes region.[7]

Japanese Automotive Investment in the United States

Few economic development targets have received greater attention by state and local officials than Japanese automotive investments. The author estimates that between 165 and 175 U.S. plant investments have been made by Japanese auto parts suppliers alone since 1978 (CSU Japanese Automotive Database, April 1988). It is estimated that another 120-130 similar investments will be made by 1992, bringing the total to around 300 Japanese parts plants.[8] It is little wonder that some people have referred to this situation as the "Japanese Transplant Invasion."

Several converging factors are causing Japanese companies to produce cars and trucks and related parts and components in the United States. The major reason common to all the Japanese vehicle producers and parts/components manufacturers located here is to establish a secure long-term foothold in the U.S. automotive market (Iannone, 1986).

Over the past decade, eight vehicle assembly plants have been built in the U.S. by the leading Japanese car and truck producers. Just one month ago, Ford Motor Company and Nissan Motors announced that the two companies will jointly produce mini vans at Ford's Truck Plant in Avon Lake, Ohio. This investment is the eighth assembly facility to be established in the U.S. Four of these plants were established through a sole entry strategy involving a single Japanese company; the other four plants have followed a joint venture entry strategy. The major characteristics of seven of these assembly plants are described in Table 6.

The following observations may be made about these investments based on the information presented in Table 6:

1. Four of the assembly plants are located in the Great Lakes region. Two others (Nissan in Tennessee, and Toyota in Kentucky) are located within close proximity to the region. Five of the plants fall within the Interstate-75 Corridor, which stretches from Michigan to the north through Tennessee to the south, providing excellent north- south transportation among these plants. This has been cited as a locational advantage by several of the Japanese parts companies establishing supplier plants in the area. Many claim the I-75 Corridor is a "target investment area" for the Japanese (Iannone, 1986). Cleveland State University has identified the following reasons why the Japanese have concentrated their interests in the I-75 Corridor:
   - I-75 offers excellent North-South transportation among the various Japanese auto plants.
   - The Corridor is centrally located in America's automotive marketplace.
   - A wide selection of smaller locations exist within the Corridor. Most are situated within an acceptable drive from larger cities, assuring a willing out-bound workforce.
   - The Corridor straddles several states, thus enhancing the Japanese' political leverage in dealing with state and local officials about
2. Combined capital outlays for seven plants identified in Table 6 totals $4.225 billion since 1978, and is expected to grow in the future.
3. Combined production capacity at the seven plants by 1991 is estimated at 1.75 million vehicles per year; 1.4 million of this total is car production capacity and the remaining 350,000 capacity units is for small truck and mini van production.

Five of the Japanese plants in the Great Lakes region fall within the Interstate-75 Corridor, which stretches from Michigan to Tennessee.

Does a Strategy Underlie Japanese Investment in the U.S. Auto Industry?

This article argues that Japanese government and automotive industry officials have cooperated in the development and implementation of a highly focused and aggressive strategy aimed to maximize Japanese automotive companies' competitive position in the U.S. market, and to utilize U.S.-based production as a platform for exports to the rest of the world.[9] This strategy, if successful, will produce fundamental structural changes in the U.S. and global automotive industries over the next five years.

Table 6: Japanese Vehicle Production Operations in the United States

Countries	United States of America						
Japanese Makers	Honda	Nissan	Mazda	Mitsubishi	Toyota	Toyota	Fuji, Isuzu
Type of Entry	Sole Entry	Sole Entry	Sole Entry	Joint Venture with Chrysler	Joint Venture with GM	Sole Entry	Joint Venture
Name of Manufacturing Subsidiary or Joint Venture	Honda of America Mfg., Inc.	Nissan Motor Manufacturing Corporation USA	Mazda Motor Manufacturing (USA) Corporation	Diamond — Star Motors Corporation	New United Motor Manufacturing Inc. (NUMMI)	Toyota Motor Manufacturing USA Inc.	Subaru — Isuzu Automotive Inc.
Foundation	February 1978	July 1980	January 1985	October 1985	February 1984	January 1986	March 1987
Paid-Up Capital	$478 million	$375 million	$200 million	$15 million at the start-up to be raised to $150 million later	$200 million	To be determined	$250 million
Share in Equity	Honda of America 97% Honda 3%	Nissan (U.S.A.) 80% Nissan 20%	Mazda 100%	Mitsubishi 50% Chrysler 50%	Toyota 50% GM 50%	To be determined	Fuji 51% Isuzu 49%
Location of Plants	Marysville, Ohio	Smyrna, Tennessee	Flat Rock, Michigan	Bloomington — Normal, Illinois	Fremont, California	George Town, Kentucky	Lafayette, Indiana
Models Produced	Accord, Civic	Nissan truck (1-ton payload), Sentra	Capella class (planned)	Specialty 1.8 and 2.0 litre 2-door hatch-back sports (at the start-up)	Nova (derivative of Sprinter); Corolla FX from September 1986	Passenger car in 2000cc class	Passenger Car in Leone class at start-up (Fuji); Small truck (Isuzu)
Start-Up	November 1982 for 1st Assy. line; April 1986 for 2nd Assy. line	June 1983 for Nissan truck, March 1985 for Sentra	Fall 1987	Late 1988	December 1984	1988	End of 1989
Yearly Capacity	360,000 at full capacity	240,000	240,000	240,000	200,000 for Nova, 50,000 for Corolla FX	200,000	60,000 each at start-up; 120,000 each at full capacity
Employees	Approx. 4,200	3,250 at the end of January 1987	3,500	Approx. 2,900	Approx. 2,500	Approx. 3,000	Approx. 1,700
Capital Outlay	$250 million for 1st Assy line; $280 million for 2nd Assy line	$745 million	$550 million	Approx. $600 million	Approx. $500 million	Approx. $800 million	Approx. $500 million
Local Content	More than 50%	50% plus	More than 50%	50 to 60% (planned)	Approx. 50%	Approx. 60%	More than 50%

Source: Japanese Automotive Manufacturers Association, 1988

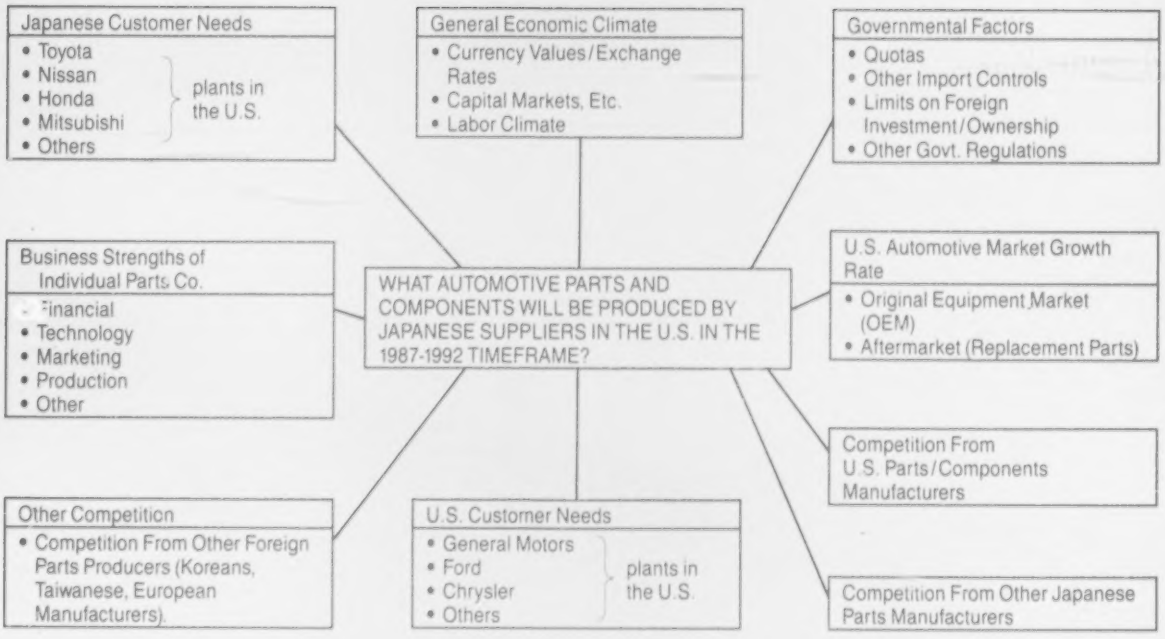
Many people are generally aware that an increasing number of Japanese automotive companies have established U.S. production operations in recent years. Few, however, are precisely aware of the extent of this investment or the business and geographic characteristics of these investments. More importantly, few have systematically assessed the long-term impact of these investments on the U.S. automotive industry and U.S. states and communities.

Since 1970, Japanese companies have made almost 400 auto-related investments in the United States.[10] One hundred seventy five of these investments, or 43 percent of the total, are investments in parts production facilities; the remaining 225 investments are warehouses, distribution centers, sales and service offices and research and development centers.

A key finding of CSU's 1986 study was that many of the Japanese transplants have plans to supply parts and components to U.S. vehicle manufacturers, in addition to their existing Japanese customers. Japanese companies like Nippondenso, Hitachi America Ltd., Warner-Ishi Corporation, NHK Spring, Akebono Brake Industry Company and others have expanded their efforts to produce original equipment (OEM) parts for U.S. vehicle manufacturers. General Motors, for example, has established a series of joint ventures with Japanese parts companies. GM's Delco Moraine Division established a joint venture plant with Akebono Brake Industry Company in Elizabethtown, Kentucky, to produce disk and drum brakes. Also, GM's Inland Division established a joint venture with NHK Spring Company to produce plastic springs for GM cars and vans (including the Saturn car). Many Japanese transplants have been forced to locate plants in the U.S. to stay ahead of both their Japanese and American competitors.

Since 1970, Japanese companies have made almost 400 auto-related investments in the United States.

Figure 1: Factors Influencing Japanese Parts Production in the U.S.



Non-market factors, especially the threat of restrictive trade legislation by the U.S. Congress, has prompted Japanese companies to increase their investment in the U.S. as a way to head-off "protectionism."

Finally and quite importantly, the general economic climate has been highly conducive to creating favorable profits from U.S.-based operations. The sustained decline of the U.S. dollar against the Japanese yen has created the necessary financial environment to make these "goodwill" investments highly profitable. Figure 1 identifies the converging factors prompting the Japanese to accelerate their auto-related investments in the United States.

Starting in the early 1970s, Japan began making a series of investments in the U.S., principally on the two coasts, to support and service Japanese car exports to the U.S. Japanese car makers rapidly gained U.S. market share during the 1970s. The Japanese were very effective in exploiting the U.S. car market at a time when the U.S was attempting to head off a major energy crisis, which caused a drastic jump in oil prices and long gas lines. The subsequent response of the U.S. government was to develop and enforce a series of energy conservation and environmental regulations, which put substantial pressure on U.S. car makers to produce more fuel-efficient and more environmentally-compatible vehicles. By the late 1970s the U.S. automotive industry was amidst the greatest period of structural change in its history. To comply with new Federal regulations and to compete more effectively against the Japanese, the U.S. automotive industry had to complete "revolutionary" changes in the design and production of its motor vehicles. Old capacity for large car production had to be scrapped and new capacity to produce more fuel-efficient small cars had to be created during an accelerated timeframe. This led to major plant closings around the country, particularly in states like Ohio and Michigan, which are primary locations for car production in the country.

During the 1975-1979 period, Toyota, Nissan, and other Japanese car makers accelerated their exports to the U.S. market. Meanwhile, Japanese car makers like Mazda and Honda were developing plans to get their share of the "treasured" U.S. market. Honda was actually the first Japanese car company to establish a U.S. production facility and Mar-

Table 7: Development of Japanese Automotive Manufacturing in the U.S., 1970 to Present

1970-1974 Period	1975-1979 Period	1980-1984 Period	1985-1988 Period
Japanese car makers increase car exports to U.S. market during early 70's energy crises. Toyota, Nissan, Mazda, others increase car parts exports to U.S. to serve replacement market for Japanese cars. Selected car parts manufacturers (Nippondenso, Aisan Industry Co., Aisin Seiki, others) increase direct exports of car parts to U.S. for Japanese cars. Some car parts companies establish import, sales, and distribution offices in U.S. (California). No known Japanese parts companies have production facilities in the U.S. at this point.	Japanese carmakers rapidly increase car exports to U.S. market. Light truck exports increase in late 70's. Honda establishes the first Japanese car production plant in U.S. (Marysville, Ohio) in 1978. Japanese carmakers work to develop sales and service network in the U.S.- Japanese dramatically increase market share in U.S. car market. Selected car parts companies establish U.S. plants to make OEM and aftermarket parts for Japanese cars-(KYB, Nippondenso, Yazaki, others.)	Japanese carmakers announce plans to establish several U.S. production plants. Honda expands Ohio facility, GM/Toyota set up NUMMI joint venture in Fremont, California. Nissan opens light truck and small car plant in Syrmna, Tennessee. Mazda embarks on U.S. plant search. Mitsubishi announces joint venture plan with Chrysler in 1984. Parts suppliers to Honda, Nissan, Toyota and others announce plans to build U.S. plants (Stanley Electric, NGK Spark Plug, Nippondenso, Toshiba, Bridgestone Tire, Toyoda Automatic Loom, others). Car makers continue aggressive export strategy, but agree to U.S. Govt's request for voluntary restraints. Japanese parts companies increase marketing efforts to U.S. car makers for OEM and aftermarket business. Japanese increase development of U.S. marketing channels. Set up dual dealerships in several states.	Mazda, Mitsubishi announce new plants in U.S. in 1985. Toyota announces new plant in Kentucky. Honda announces development car engine plant in Ohio. Several parts companies establish plants in U.S. to produce products for Japanese and U.S. cars, both OEM and aftermarket. (Nippon Cable, NGK Spark Plug, NOK Corp., Nippon Seiki, Calsonic Inc., Jideco, Morioku, many others.) Several Japanese parts companies evaluate joint ventures with U.S. parts companies. Fuji/Isuzu announce plan to set up joint venture plant in Indiana. Japanese parts companies continue to expand U.S. marketing/distribution networks. As of May, 1988, 175 Japanese parts plants have either been established or announced in the U.S.

ysville, Ohio was selected as the location for this plant. Japanese auto parts manufacturers began to set up U.S. plants to supply their Japanese customers during this period. Many of these companies had established import, service and distribution facilities on the two coasts (California, New York-New Jersey area) during the early and mid-1970s.

Japanese parts manufacturers like Nippondenso, Aisin Seiki, Aisan Industry Company, NGK Spark Plug, Toshiba, Bridgestone Tire and others were among the first to create sales and service infrastructures in the U.S. These companies worked very closely with their customers (Toyota, Nissan and others) to service the replacement parts market for Japanese vehicles sold in the U.S. Japanese firms were well-established in servicing the aftermarket for Japanese and U.S. vehicles by the late 1970s. These plans quickly shifted to U.S. original equipment market (OEM) needs. Honda, with its announcement in 1978 to produce motorcycles (ini-

tially) and eventually cars in Ohio, prompted several of its suppliers to set up production in the U.S. Stanley Electric and others were not long in arriving.

Japanese efforts to create a U.S. manufacturing presence developed rapidly in the 1980-1984 period. By this time, Nissan had announced plans and built a plant in Tennessee; General Motors and Toyota had established the NUMMI joint venture in Fremont, California; and Mitsubishi and Chrysler had announced joint venture plans for the U.S. Japanese parts companies by this time were making frequent visits to U.S. states looking for production sites. At the same time, the Japanese continued to refine and expand their marketing and distribution infrastructure to service the U.S. market using both export and domestic production strategies.

During the last three years (1985-1988), the Japanese have greatly accelerated their investment in U.S. production. Parts and components manufacturers have increased sharply their investments in the U.S. to serve both Japanese and American vehicle manufacturers. Analysis of published information about these companies' production and marketing plans indicates that a considerable number of these firms plan to sell to U.S. automakers, as well as their traditional Japanese customers.

Future Outlook for Japanese Automotive Investment in the United States (1989-1991/1992)

By 1991, Japanese vehicle manufacturers will have in-place capacity to annually produce 1.7 million vehicles (cars and small trucks) in the U.S., and another 350,000 vehicles in Canada[1]. Sales of imports and U.S.-built Japanese cars and trucks

Table 8: U.S. Automobile Sales Forecasts by Segment and Source
(in thousands, except as noted)

Vehicle Category and Source	1986	1987[1]	1988[2]	1989[2]	1990[2]	1991[2]
TOTAL	11,420	10,300	10,600	10,795	10,900	11,100
Small	2,956	2,720	2,790	2,810	2,830	2,870
Japanese Imports	1,142	1,030	1,050	1,010	1,005	995
Captives[3]	254	230	340	465	470	490
North American-Built Japanese	253	390	450	590	650	700
European Imports	66	50	40	35	20	20
Other Imports	169	290	370	400	455	470
Traditional North American	1,072	730	540	310	230	195
Market Share (percent)	25.9	26.4	26.3	26.0	26.0	25.9
Compact	3,315	3,180	3,305	3,335	3,350	3,410
Japanese Imports	754	760	940	975	960	1,010
North American-Built Japanese	212	230	400	440	450	550
European Imports	125	90	110	120	120	130
Other Imports	0	0	50	60	80	80
Traditional North American	2,224	2,100	1,805	1,740	1,740	1,640
Market Share (percent)	29.0	30.9	31.2	30.9	30.7	30.7
Intermediate	2,834	2,440	2,535	2,610	2,660	2,700
Japanese Imports	113	110	115	120	160	180
North American-Built Japanese	0	0	0	0	105	135
European Imports	106	80	75	80	85	85
Traditional North American	2,615	2,250	2,345	2,410	2,310	2,300
Market Share (percent)	24.8	23.7	23.9	24.2	24.4	24.3
Large/Luxury	2,315	1,960	1,970	2,040	2,060	2,120
Japanese imports	67	90	105	140	165	180
European Imports	382	340	325	320	305	305
Traditional North American	1,866	1,530	1,540	1,580	1,590	1,635
Market Share (percent)	20.3	19.0	18.6	18.9	18.9	19.1

[1]Estimate.
[2]Forecast.
[3]Foreign-made but sold under domestic nameplates.
SOURCE: U.S. Department of Commerce: International Trade Administration, Office of Automotive Industry Affairs. NOTE: The above forecast assumes that the Japanese voluntary export restraint is eliminated as of April 1, 1988.

are expected to grow in the future. Table 8 presents data based upon the most recent forecast of U.S. auto sales by the Commerce Department's Office of Automotive Affairs.

In 1986, Japanese car imports totaled 2,330,000 (includes 254,000 cars which were Japanese-made but sold under domestic nameplates), which represented a 20.78 percent share of the U.S. market. Japanese cars represented more than over 73 percent of all imports sold in the U.S. market.

Japanese imports are forecast to be in the 2.5 million range (including 340,000 captives) in 1988, and are expected to be in the 2.8 million range (including 490,000 captives) in 1991.

These forecasts point to continued growth in the number of Japanese "transplant" suppliers with U.S. manufacturing facilities. Between 165 and 175 Japanese parts suppliers either have established plants or announced plans to build U.S. plants by the end of 1988. CSU's analysis indicates that as many as 285 to 300 Japanese parts plants may be in-place in the U.S. by 1991-1992.

While many of the earlier plants produce less sophisticated parts and components, several of the future investments will relate to more advanced components and systems, including engines and transmissions. Honda has already initiated construction of an engine plant in Anna, Ohio, to supply its Marysville assembly facility. Recent news articles suggest that both Mazda and Nissan are actively considering plans for U.S. engine plants.[12] This development is significant because it suggests that the Japanese are capable of fully "transplanting" their entire automotive production system to the U.S.

It is also conceivable that one to two additional Japanese vehicle assembly plants may be considered for the U.S. These plans will depend to a high degree on what happens to the U.S. and world economies over the next 12 to 18 months and the extent to which Japanese manufacturers plan to use U.S.-based production as a platform for worldwide exports. Developments surrounding the 1992 integration of the European Common Market will factor into these decisions.

Table 9 presents CSU's forecast of Japanese auto-related investments in the U.S. through 1992. Future investments in assembly plants, by either Japanese automakers already with U.S. operations, or others, will depend to a high degree on Japanese automakers ability to produce vehicles in automaker's ability the U.S. and export these vehicles either back to Japan or to other countries, especially Western Europe. At a recent conference in Columbus, Ohio, Honda Manufacturing of America announced that it expects to export 70,000 cars per year to Japan and Europe by 1991 from its Ohio-based production facilities.[13]

Japanese car makers sold 465,000 U.S.-built cars in 1986 for a 4.1 percent share of the U.S. auto market. This figure is expected to double by the end of 1988 to 850,000 cars for an 8.0 percent U.S. market share, and grow to 1,385,000 cars for a 12.5 percent share of the U.S. car market by 1991.[14] (see Table 10).

With 1.7 million units of annual capacity available in the U.S. by 1991/1992, this suggests that U.S.-based Japanese auto assembly plants may attempt to export the remaining 315,000 U.S.-built cars to foreign markets. European Community officials have become increasingly concerned about this prospect (personal communications, EEC, Brussels, 1987).

Table 9: Accelerated Japanese Investment in U.S. Automotive Production

YEAR	IN-PLACE ASSEMBLY PLANTS	IN-PLACE PARTS MFG. PLANTS
1975	0	3-5
1980	1	12-15
1985	6	65-70
1988	7	165-175
1991/1992	8-9	285-300

SOURCE: CSU forecast based upon its own study and review of other available analyses.

Table 10: U.S. Sales Forecast for U.S.-Built Japanese Cars (1986-1991)

Year	Annual Sales Forecast (Car Units)	U.S. Market Share (%)
1986	465,000	4.1%
1987	620,000	6.0
1988	850,000	8.0
1989	1,030,000	9.5
1990	1,205,000	11.1
1991	1,385,000	12.5

Source: CSU Estimates Based Upon Data Prepared By U.S. Department of Commerce's Office of Automotive Affairs, 1988.

Major Findings and Conclusions

This research identifies several future developments and trends related to Japanese automotive investments in the United States.

1. Japanese firms will continue to make several auto-related investments in the U.S. over the next five years. By 1992, Japanese auto assembly plants are likely to total eight or nine, and parts and component manufacturing facilities will reach 285 to 300. At the present time, seven assembly plants have been established in the U.S., and 165 to 175 parts manufacturing facilities have been built or have been announced for future development.
2. Japanese car makers are expected to have 1.7 million units of annual production capacity in-place in the U.S. It is believed that 1.3 to 1.4 million of these vehicles are planned for the U.S. market, and the remaining 300,000 to 400,000 vehicles will be exported to Japan and European markets.
3. Japanese automotive companies and the Japanese government have developed and executed a highly focused and aggressive strategy to use an off-shore production presence in the U.S. as a source of long-term comparative advantage to serve the U.S. market and other global markets. This coordinated strategy makes effective use of various public sector economic development incentives available from state governments and local communities.
4. Several groups in the U.S., including domestic automotive companies, labor unions, and selected national industry associations, have grown increasingly concerned about the long-term economic impact of these increased Japanese investments. These concerns relate to the competitive effect of the "transplant" investments on U.S. automakers and U.S. auto parts manufacturers, and also relate to the return of profits earned in the U.S. back to Japan to create additional wealth in Japan.

   Initially, the focus of concern about the Japanese automotive industry related to growing Japanese car imports in the U.S. This concern has now shifted to the impact of "subsidized" foreign investments in the U.S. by Japanese automotive companies.
5. Efforts have increased by the U.S. Department of Commerce, other federal government agencies, and national automotive associations to expand U.S. parts and component sales to U.S.-based Japanese transplants and Japanese companies in Japan. While Japanese government and company officials have embraced this idea in concept, few American companies to date have succeeded in increasing their sales in Japan or to Japanese companies operating in the U.S.

   Most Japanese car companies with U.S.-based plants have increased local content in U.S.-built cars and trucks, the vast majority (90-95%) of this local content value is supplied by their Japanese suppliers with U.S. plants. Some believe that only those U.S. auto suppliers capable of establishing joint ventures with Japanese suppliers in the U.S. will see any of this business in the future. The "feared" price to be paid for these joint ventures is that the U.S. suppliers will be asked to open their market with U.S. car makers to their Japanese partners.
6. U.S. automakers and parts manufacturers foresee a growing threat of production "overcapacity" both in the U.S. and globally. In response to this growing problem, U.S. car makers, as illustrated by General Motors' two plant closings in Ohio this year, have shut assembly plants in the U.S.

General Motors, Ford and Chrysler have initiated major plans to alter their global procurement strategies. Many believe these new plans will call for sharp reductions in the number of their suppliers. The future trend appears to be toward fewer but larger suppliers worldwide. Where suppliers possess unique technology required by U.S. car makers, long-term working relationships are more likely.

Many foresee an increasing number of "strategic alliances" like the G.M./Toyota NUMMI venture in Fremont, California, and the ChryslerMitsubishi joint venture in Bloomington, Illinois. These new "alliances" are expected to increase pressure on U.S. auto suppliers to compete with their Japanese counterparts for the same business.

Japanese auto manufacturers, on the other hand, have adopted a "public stance" that an overcapacity problem does not currently exist and is not likely in the future.[15]

7. This article sees continuing competition among U.S. (particularly Midwestern) states and communities for future Japanese auto investments. Because of the growing public concern about the use of tax and financial subsidies and other types of public assistance, state and local officials are likely to be more con-

servative in the use of these incentives in the future.

State governments will continue to play an important role in working with Japanese investment prospects. State development agencies will be asked to play an increased coordination role in dealing with local communities.

Also, smaller communities will increase their use of regional marketing strategies to interest Japanese transplants in locating in their areas. Where a large city is based in the sub-state region, such as Columbus in central Ohio, economic development groups representing the city region will play an increased coordinative role. Those regions lacking large cities will see the increasing involvement of their state development agency or utility companies serving the area in the future.

8. U.S. State development offices in Japan will be asked to play an expanded role in the future, to accomodate this increased investment interest by Japanese companies in the U.S. and will see a growth in the number of trade and investment missions to Japan from their home states.
9. Japanese banks will increase their role in helping Japanese firms establish U.S.-based operations. The current wave of cooperative agreements signed between U.S. state governments and Japanese banks reflect this trend. Because of the structure of the Japanese economic system, Japanese banks view themselves as "suppliers" to the Japanese automotive companies locating in the U.S. The banks supply much of the capital necessary to make these investments.
10. Increasing attention will be given to the "job impact" of Japanese auto investments in the U.S. Labor unions and industry trade associations (American Auto Parts and Accessories Association, Motor Equipment Manufacturers Association, Motor Vehicle Manufacturers Association) are likely to conduct more analytic studies of job creation by Japanese companies and jobs displaced in American plants. The American Automotive Parts & Accessories Association estimates that three jobs are lost in an American plant for every one job created in a U.S.-based Japanese auto plant. (*Metalworking News*, April 27, 1987).

Economic Development Policy and Strategy Recommendations

The current wave of Japanese automotive investment in the United States has several important implications for both national and subnational (state and local) public policy and economic development strategy.

1. This article views the recruitment of foreign direct investment as a valid and appropriate strategy for local economic development where these investments create local jobs, add to the long-term wealth of the community, and promote the integration of states and communities into the global economy.

   Because of the collaborative relationship between government and private industry in foreign countries, like Japan, it is imperative that state and local officials in the U.S. understand clearly the implications of these collaborative efforts on U.S. communities and companies. A special effort should be made by state and local officials to systematically assess the long-term economic impact of foreign investments on U.S. industry. This article is illustrative of the type of policy research which should be conducted in the future.

   Researchers conducting studies on foreign investment in the U.S. in this area should be convened at a national conference to discuss the policy implications of this research. Federal, state and local government officials should be invited to this conference.
2. State and local officials should adopt policies to encourage Japanese companies to increase their direct purchases from U.S. auto suppliers. To date, most of this business has gone to "transplanted" Japanese suppliers. Consideration should be given to making this a criterion to determine whether an "in-coming" Japanese company qualifies for public subsidies. In spite of possible difficulties in reaching agreement, those states experiencing a concentrated in-flow of Japanese automotive investment should sign a cooperative agreement to implement this policy.
3. State and local officials should encourage and assist U.S. automakers and U.S. parts / components suppliers to improve productivity and quality. As an initial strategy, state programs established to stimulate technological innovation, such as Ohio's Thomas Edison Program, should identify how the resources of their technology application centers could be focused on the future technical needs of U.S. vehicle manufacturers and sup-

pliers. This action could help U.S. companies to meet Japanese quality standards and also improve these firms' competitiveness in selling their automotive products in Japan and other foreign markets.

4. State and local economic development officials should increase efforts to clarify future procurement / sourcing plans of U.S. vehicle manufacturers. Economic developers should work with small to medium sized U.S. auto suppliers to improve their ability to supply U.S. vehicle manufacturers, both within the U.S. and abroad. State and local officials should examine the appropriateness of providing incentives to encourage U.S. vehicle manufacturers and suppliers to increase business with one another in the future.
5. Local, state, and federal officials representing states in the Great Lakes region should conduct an assessment of current international trade legislation proposed in Washington, which is likely to have an important impact on the Midwestern automotive industry. After this review has been conducted, Great Lakes officials should develop a common legislative strategy to support those Federal policies which will have a favorable impact on the Great Lakes economy. The recent Canada U.S. Free Trade Agreement (FTA) is a useful starting point in this analysis.
6. Finally, state and local officials in the Great Lakes region should develop an aggressive focused strategy to increase the product sales of Midwestern companies in Japan and other foreign markets. Because of the size of the U.S. trade deficit with Japan, a concerted effort should be made to increase U.S. exports to Japan.

These recommendations, as part of an overall strategy, would help American companies to respond to increased foreign competition in the U.S. market and also help American firms to increase sales abroad. Actions are necessary on both sides to improve the competitive position of suppliers to the U.S. and world automotive industry.

State and local officials in the Great Lakes region should develop an aggressive focused strategy to increase sales of Midwestern companies in Japan and other foreign markets.

Notes

1. Most of these groups concur that foreign direct investment is likely to increase in the future, especially as the U.S. increases its dependence on foreign capital sources. Many of these groups have expressed concern about this growing dependence.
2. The author interviewed governmental and business officials in the U.S., Japan and Europe in preparation for this study.
3. While European and Canadian investors have accounted for the vast majority of foreign acquisitions in the U.S. in the past, Japanese investors have increased their activity in this area in recent years.
4. This observation is based upon a review of recent newspaper and trade journal articles and interviews with industry and government officials.
5. In both cases, the public officials who decided to provide public incentives to the Japanese companies received considerable public criticism. The state of Illinois has recently adopted a policy stating that all future requests for public incentives from foreign firms proposing investments in Illinois must be studied by the state to determine whether the project will compete with existing Illinois companies.
6. Development officials in Ohio, Illinois, Michigan, Indiana, Kentucky, and Tennessee were interviewed for this study.
7. The auto industry is heavily concentrated in the Great Lakes region. The economies of several states and communities within the region depend on the auto industry as a source of economic development.
8. This estimate is based upon research conducted by the Economic Development Program in the College of Urban Affairs at Cleveland State University. The figure is fairly consistent with estimates developed by other groups, including the U.S. Department of Commerce.
9. The sheer number of these investments alone suggests that they are driven/influenced by an underlying strategy. Interviews with government and industry sources confirm this observation.
10. These investments were identified through CSU research. A database of these investments has been developed.
11. Based upon estimates prepared by the Japanese Automotive Manufacturers Association (JAMA) and the U.S. Department of Commerce Office of Automotive Affairs.
12. Both companies have proposed to establish engine plants in the U.S., but the details (including location) of these plants have not been announced.
13. Honda made this announcement at a "Business-Business Seminar for Japanese and U.S. Auto Suppliers," sponsored by the Mitsubishi Bank

and the Ohio Department of Development in Columbus, Ohio, on May 12, 1988.
14. Based upon data presented in Table 7 of this article.
15. This "stance" is reflected in recent articles in *Automotive News* and other industry publications.

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Economic Development Organizations In Northeast Ohio: The Efficiency Paradigm

by Timothy F. Kinsella and Jennifer Ho

Introduction

The purpose of this article is to examine the results of survey findings concerning economic development organizations (EDOs) in Northeast Ohio. This survey was conducted by The Economic Development Program, the Urban Center, College of Urban Affairs, Cleveland State University. These findings represent an initial step in an extensive study of EDOs and their contributions to the region's economic development during a time of structural change and transition.

Historically, Northeast Ohio[1] built its reputation on the strength of heavy manufacturing industries. Highly labor intensive production operations, requiring a large blue collar work force, were performed in factory settings.

Today, the region faces a major economic challenge. Manufacturing firms are decentralizing their production operations to low-cost areas around the nation and globe. Larger firms continue to outsource production to smaller, more distant firms. Jobs are automated through technological advance. These actions improve overall firm competitiveness, but result in factory closings and blue collar employment decline in the region, even while some suburban areas continue their manufacturing employment growth. Manufacturing production employment in Northeast Ohio declined by 39.4 percent between 1967 and 1982, from 338,400 to 205,000 (*Census of Manufactures*, 1985).

Meanwhile, the services economy is on the rise. A review of employment data indicate that jobs continue to proliferate in both the high and low wage ends of the service industries. Services employment in the 11-county Northeast Ohio area increased from 208,681 to 322,120, or 54.4 percent between 1968 and 1984. Central administration office employment, or service activity within manufacturing in the Cleveland-Akron region, increased from 27,400 to 42,500, or 54.7 percent between 1967 and 1982 (*Census of Manufactures, 1985*).

Leaders in the public, private and not-for-profit sectors in Northeast Ohio are attempting to make sense of this transition. The loss of numerous routinized production jobs is a major concern. On the other hand, services growth represents an area of opportunity. Leaders are searching for ways to regain the region's economic strength and successfully meet the challenges posed by an economy in transition (Porter and Sweet, 1984; Cleveland State University, 1986; Gappert, 1987; Bingham and Blair, 1984).

Economic development organizations (EDOs) are perceived as primary institutional mechanisms for fostering economic development in local communities. Economic development is defined as the process of creating wealth through the mobilization of human, natural, and capital resources, in combination with improvements in the organization and technology by which these factors of production are employed (Gill, 1963).

The profession views economic development as primarily a private sector phenomenon (American Economic Development Council, 1984). EDOs are composed of actors in the private sector (railroads, banks, utilities, real estate developers), the public sector (all levels of government), and the not-for-profit sector (community groups and educational institutions). These groups act as catalysts or brokers for resources and institutions in their community to influence private sector decisions attracting investment. Expected out-

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comes for the community include job creation, a secure tax base, and a healthy financial position (American Economic Development Council, 1984; Oliver, 1985).

While not numerous, studies of EDOs and their activities do exist. Rubin (1986) found that the presence of EDOs increases the number of actions that municipalities undertake to promote economic development. However, he argues that EDOs are laden with business values. They take actions at the expense of other segments of the community, such as neighborhood groups.

Sternberg (1987) took a different approach to the study of EDOs. Local economic development is characterized by a multiplicity of policy options. However, professionals typically utilize only very few options. To engage more effectively in economic policy making, practitioners should have an overview that arranges potential policy instruments in a logical order. Sternberg accomplished this task through the tradition of political economy. He developed a scheme that classifies a complete tabulation of policy instruments that can be utilized by government EDOs.

Malizia (1986) distinguished between economic development and growth strategies that could be undertaken by an EDO. Vaughan et. al. (1985) made a distinction between job creation and economic development. In their works, the two authors made similar arguments. Development is the process by which wealth is created. Enlightened development policy, such as creating a local environment to stimulate the entrepreneurial process, is likely to produce wealth, but not create many jobs. Replacement of old products and industry with the new, changing demands for labor skills, and the birth of new firms all can be overlooked when focusing only on job growth. The authors argue for policies sustaining development, with implications for Rubin's interest in equity, and Sternberg's development policy options.

Buss and Vaughan (1987) examined EDOs in the Youngstown area. Their approach combined an interest in efficiency, equity, and effective performance. They argued that governments should attempt to create a system in which different goals and objectives, such as wealth or job creation, are reflected in different EDOs. The entrepreneurial skills of the EDO should determine the activities pursued. The authors advocate EDOs with a clearly defined purpose, the ability of different local actors to create EDOs through assessment by majority vote, and the use of performance-based funding. They suggest that support should be withdrawn from EDOs that perform poorly.

Other research teams have surveyed EDOs. Ottensmeyer, Humphrey, and Erickson (1987) surveyed local industrial development groups (LIDGs) throughout the nation. They focused on structure, functions and key resources and connections. The authors found substantial diversity among LIDGs with respect to strategies, activities, forms and impacts. They determined that groups act in a variety of contexts and historical circumstances. Clearly, the groups are constrained or aided by federal and state policies and a global economy over which they have little control. However, they differ in what they are able to accomplish.

The authors found that LIDGs are relatively young, locally based, and often tied to membership dues and to government for funding. There are generally few employees. They are very client-oriented, specifically in their role as information broker. Retention, expansion, targetting and local infrastructure development are primary activities, governed by resource availability. Networks and linkages were found to be key to effective growth promotion. The authors gauged effectiveness of EDOs by the number of firms added and jobs created.

The International City Management Association (ICMA) conducted a survey of government EDOs (ICMA, 1984). This survey focused on EDO structure, planning for economic development, various activities to encourage development and funding sources.

The authors found a diversity in structure, ranging from a separate EDO department to total control in the mayor's office, often dependent on city size. Many of the larger cities have adopted development plans, through mechanisms such as citizen surveys and consultant studies. Activities include infrastructure improvements, commercial revitalization, assistance with financial incentives to encourage private investment, and aesthetic improvements. Local governments have relied heavily on federal grants-in-aid and local taxes to fund their programs. The authors conclude that economic development activities have become an important element of local government operations. However, federal funding reductions make the long term future of these EDOs uncertain, requiring even greater care in building economic development strategies.

As a final example, The Edison Electric Institute (1986) conducted a survey of its utility members to determine how electric power companies across the country support local economic development. The survey examined the goals of these

programs, how they are organized and funded, and the roles played by the electric power companies. Four key roles were identified as the most cost effective: advertising and promotion, community profile data, site data services, and assistance to state and local organizations.

The Economic Development Program at Cleveland State University is involved in an extensive research effort to understand EDOs and their contributions to the region's development. The focus of this study is to present a profile of EDOs. It replicates other studies in that it seeks information on the structure and functions of EDOs and it adds to the literature by tying these structures and functions to perceived training needs and requirements.

Between August 1987 and January 1988, a 14-page questionnaire was mailed to EDOs in the Cleveland region (Cuyahoga, Lake, Medina, Geauga, Lorain, and Ashtabula counties). Names and addresses were gained through contacts with existing economic development professionals as well as phone calls to area municipal governments and chambers of commerce. Some 98 EDOs were identified, and 59 completed surveys were returned, a response rate of 60.2 percent.

The survey includes questions on EDO structures and functions, each comprised of several dimensions which will be detailed in the following sections. It is argued that these dimensions, in turn, shape perceived EDO training needs. Consequently, this survey provides an initial step in constructing a picture of EDOs in the region. It also offers insight into their training needs, which could be provided by urban universities through continuing education (conferences, seminars) and academic tracks.

EDO Structure: An Initial Examination

Dimensions of EDO structure as found in the survey results are examined in this section. Areas of concern include EDO type and geographic service area, employment, length of years in existence, budget total and allocation, and methods of fund raising. These dimensions provide a starting point for understanding EDOs in the region.

Chambers of commerce, especially those in small cities and towns, accounted for 28 of the 59 EDOs surveyed, or 47.4 percent. Chambers were followed by development departments of municipal governments (9, or 15.2 percent). Other respondents included development departments of county government and utilities (both at 4 each or 6.8 percent); private not-for-profit development corporations (at 3 or 5.1 percent), and 2 each (3.4 percent) of: community improvement corporations (CICs), planning organizations, and universities. Other respondents included banks and planning departments of local government.

Many of the EDOs surveyed were relatively new, formed during a time of transition in the economy. The mean years of existence is almost 15, with seven years as the median. A few EDOs have been around since the turn of the century.

A total of 41.4 percent of the respondents indicated that their EDOs serviced cities, villages or townships, no doubt influenced by the plethora of chambers of commerce and municipal governments, while 32.7 percent served county-wide constituents and 15.5 percent the region. The remainder served state-wide boundaries or beyond.

EDOs are not large employers. Full-time workers range from 0 to 65, with a mean of 4.2 per organization. A number of chambers had no full-time staff. Part-time workers range from 0 to 12, with a mean of 1 per EDO. EDOs also depend on volunteer workers to accomplish tasks, with numbers ranging from 0 to 100, and a mean of 3.3. Volunteers are particularly important to the Chambers.

Many of the Economic Development Organizations were relatively new, formed during a time of transition in the economy.

As might be expected, these small-sized EDOs generally have small budgets, skewed by the presence of small city and town chambers. A total of 22 of the 52 EDOs (42.3 percent) responding to this question have a yearly budget of less than $50,000, while five fell within the $50,000 to 100,000 range. Another 13 EDOs indicated their budgets to be in the $100,000 to $300,000 range, and five more in the $300,000 to $500,000 range. Six EDOs responding had yearly budgets of $1,000,000 or more.

On average, 45.2 percent of the budget went to personnel. Program expenses followed at 22.8 percent, with overhead (utilities, offices and rent) and travel at 8.0 percent and 7.2 percent respectively. Staff training is a low priority, at 2.7 percent. A total of 14 respondents spent less than $100 on staff training; another 11 allocated only $500 to $1,000; 13 more allocated between $1,000 and $5,000; and only seven allocated $5,000 or more.

Finally, with regards to structure, key methods of fund raising were ascertained, both currently and five years ago. Respondents often checked more than one item. Both regular membership dues and government grants were major funding sources, each noted in 44.9 percent of all responses. Special purpose fund raisers and corporate contributions followed at 24.5 percent each. Foundation grants were noted in 22.4 percent of the responses. This same general pattern held five years ago.

EDO actors in the region are relatively diverse in type. However, small city and town chambers of commerce and development departments within municipal government are most numerous, dictated by the many governmental jurisdictions in the region. These EDOs generally serve small geographic areas, employ few people and have small budgets. There are, of course, exceptions with the presence of regional EDOs. Budgets go primarily to personnel and programs while fund-raising occurs through membership dues and government grants.

Functions Performed by EDOs

Functions performed by EDOs are examined in this section. Dimensions include definitions of economic development, existence of a development plan, priority areas of concern, functions performed, plans for expansion of present programs, criteria for evaluating the performance of an EDO, organizational evaluation of performance, and resources utilized to accomplish tasks.

The first dimension to be examined concerning functions performed was the EDOs definition of economic development. Only one response was requested out of a possible seven alternatives. Of the 57 EDOs responding, 26 (45.6 percent) noted "creation of jobs through business expansion, retention and attraction". Second ranked — but far behind at 11 responses (19.3 percent) — was "creation of new wealth in the community through expansion of the economic base." Other definitions of economic development receiving attention included "improving the quality of life" at 8 responses (14.0 percent), and encouraging investment by business, with 6 responses (10.5 percent).

A total of 54 of 57 respondents, or 91.0 percent, proclaimed economic development, however defined, to be a major priority for their organization. A full 66.6 percent noted that they had prepared an economic development plan for their area, while 75.5 percent of that figure used the plan as a guide for decision making and action.

The next dimension focused on perceived development priorities for the primary geographic area of the 52 EDOs who responded to this question. Thirty-two possible priority items were presented in the questionnaire. Figures noted in Table 1 represent "highest priority" responses for the local area of EDOs.

Nine-tenths of the EDOs proclaimed economic development, however defined, to be a major priority for their organization.

As expected, based on the definition of economic development, retention of existing manufacturing industries was the item viewed as highest priority by most respondents. Many of the other highest priority items focused on developing small business, including small business expansion, entrepreneurial firm development, and new service industries. Attracting business of all types was a major concern, particularly for chambers of commerce. Other respondents focused on enhancing business efficiency, including im-

Table 1: Highest Economic Development Priority Items in Local Area of EDO
(Top Responses)

Rank	Item	Responses	Percent
1	Retain and expand existing manufacturing industries	38	73.1
2	Expand existing small business (all types)	34	65.4
3	Develop new entrepreneurial businesses	26	50.0
4	Attract new business currently based outside region	22	42.3
5	Improve capital availability for small & developing businesses	21	40.4
6	Increase funding support for economic development efforts	20	38.5
6	Increase public-private cooperation	20	38.5
8	Improve relationship between infrastructure planning and local economic development	18	34.6
8	Develop new service industries	18	34.6
10	Reduce costs of doing business in area	17	32.7

N for each item = 52

proved capital availability, reducing costs of doing business, and improving the relationship between infrastructure planning and local economic development. Items noted as "high priority" by the fewest number of respondents include attraction of foreign investment and development of housing in central cities, at three and four responses respectively.

A total of 49 EDO respondents also noted highest priority items for the Northeast Ohio region, rather than their own geographic area. These items are shown in Table 2.

Three of the first five items for this dimension also appear for the EDO's local area. Retention and expansion clearly occupies the highest ranking, followed by attraction of new firms. Attention also was focused on small and new entrepreneurial businesses, particularly by government EDOs. Interestingly, in the remaining responses for the Northeast Ohio area, respondents emphasized the importance of functions performed within industry, such as research and development, headquarters, and precision operations. Items noted the fewest times as highest priority for the region include increasing the participation rate of minorities and women in economic development (5 responses), followed by development of housing in central cities (7 responses).

Following priorities, respondents were questioned about functions performed by the EDO, both current and future planned. Twenty-eight possible items were presented for consideration. Respondents could check as many items as appropriate to their organization. The top current functions for the 55 EDOs answering this question are presented in Table 3.

Table 2: Highest Economic Development Priorities For The Northeast Ohio Area As Perceived By Area EDOs

(Top Responses)

Rank	Item	Responses	Percent
1	Retain and expand existing manufacturing industries	41	83.7
2	Attract new business currently based outside region	23	46.9
3	Develop research and development operations	22	44.9
4	Develop new entrepreneurial businesses	21	42.9
4	Improve labor-management relations climate	21	42.9
6	Expand existing small businesses	20	40.8
6	Develop high tech manufacturing firms	20	40.8
8	Develop new service industries	19	38.8
9	Increase public/private cooperation	18	36.7
10	Develop corporate headquarter & other business functions	16	32.7

N for each item = 49

Table 3: Current Economic Functions Of EDOs in Northeast Ohio

(Top Responses)

Rank	Item	Responses	Percent
1	Information broker/facilities	35	63.6
2	Retention and expansion	34	61.8
2	New business attraction (out-of-town)	34	61.8
4	Seminars, workshops, special events, speakers bureau	33	60.0
5	Economic development marketing	31	56.4
5	Provision of community & business data base	31	56.4
7	Strategic planning for economic development	29	52.7
8	Legislative, government liason lobbying	27	49.1
9	Research and planning — public services, infrastructure	23	41.8
10	Leadership development	22	40.0

N for each item = 55

The primary current function of an EDO is that of information broker and facilitator for development prospects, government, and community resources. Other functions noted by respondents reflect this task, such as provider of seminars and workshops; marketing of the area; economic and business monitoring; and provider of a community and business data base. These functions contribute to business retention, expansion and attraction, the other primary functions of an EDO. Current functions noted the fewest times include devel-

The primary current function of an EDO is that of information broker and facilitator for development prospects, government, community resources.

opment permits, licenses, approvals (7) and land banking (4).

Future planned functions departed from current functions to an extent, reflecting potential new directions for EDOs. (see Table 4).

New entrants included lakefront development, private financing, new venture start-up small business development, and target industry development. New venture start-ups, in particular, was an area of interest to chambers. Other functions mirror those appearing in the previous table. The future planned functions that were noted the fewest times include tax incentives (2) and other public financial incentives (2), largely because they already are viewed as relatively important functions by respondents.

A total of 20.7 percent of the respondents noted they planned to develop new programs, such as those indicated, while 27.6 percent planned to expand current programs; another 19.0 percent would do both. Finally, 32.7 percent planned no programmatic changes in the future.

The criteria for evaluating an EDO's performance generally correlatewith definitions of economic development and priorities and functions performed. They are similar across EDOs. A total of 15 (26.3 percent) of 57 respondents to this question noted that the major criterion for evaluation was the number of businesses assisted. Another 13 (22.8 percent) emphasized the number of jobs created or retained. The same number stressed the amount ofbusiness investment in the community as a result of EDO efforts. Five (8.8 percent) of the respondents noted quality of life improvements as a major criterion for evaluation.

The EDO survey next requested information on who performed the evaluations. Exactly 50.0 percent identified their Board of Directors, due to the numerical dominance of area Chambers and their structural arrangements which includes a Board. For 28.6 percent of the respondents, organization staff performed this evaluation role. Only 5.3 percent of the EDOs were evaluated by funding sources.

Table 4: Future Planned Economic Functions Of EDOs In Northeast Ohio

(Top Responses)

Rank	Item	Responses	Percent
1	New venture start up-small business development	17	30.9
2	Strategic planning for economic development	14	25.5
3	Lakefront development	13	23.6
4	New business attraction (out-of-town)	12	21.8
5	Private financing (raising debt and/or equity)	11	20.0
5	Economic & business monitoring/analysis	11	20.0
5	Target industry development	11	20.0
8	Retention and expansion	10	18.2
8	Economic development marketing	10	18.2
	N for each item = 55		

Table 5: Key Economic Development Resources

(Top Responses)

Rank	Item	Responses	Percent
1	Local legislative bodies	44	80.0
2	Local community chambers of commerce	39	70.9
3	City government development office	35	63.6
4	Regional natural gas utility company	33	60.0
5	Regional electric power utility company	32	58.2
6	Regional banks	31	56.4
6	County government development office	31	56.4
8	Regional/local planning association	30	54.5
9	Ohio Department of Development	30	54.5
10	Industrial and commercial realtors	29	52.7
	N for each item = 55		

The final dimension with regards to function focused on resources utilized by an EDO to accomplish tasks. These resources form the basis for interorganizational networks in economic development. A total of 28 possible resource contacts were noted in the survey questionnaire, and respondents could check as many actors as pertained to their organization. Figures indicate respondents checking "frequent" (weekly or monthly) interaction (see Table 5).

Local legislative bodies, local chambers of commerce and city government development offices led the list of key resources, all reflecting the plethora of municipalities in the region. At the same time, EDOs interact with regional groups such as utilities, banks, planning associations, and industrial realtors. Therefore EDOs clearly interact with both local and regional entities on a frequent basis in economic development matters. However, local chambers appear to act most with local resources. Nonchamber actors, such as local and county governments, tend to act more with regional resources. Resources receiving fewest "frequent" ratings include convention bureaus (5) and the U.S. Department of Labor (7).

In sum, insight into EDO functions is provided by the examination of several dimensions, one of which is the definition of economic development. EDOs define economic development primarily in two ways: (a) The creation of jobs through business expansion, retention and attraction; and (b) wealth creation. Economic development priorities and functions, as well as evaluations, clearly mirror these primary operational definitions. Manufacturing and service firms, large and small, and functions performed within firms, such as headquarters operations, all were viewed as areas of focus. The EDO works best as an informational broker, bolstered by the presence of local and regional resources to foster economic development in their areas.

Economic Development Training Needs and Interests

Training needs and interests are examined in this section, and correlations are identified between training areas, as well as between training areas and dimensions related to EDO structure and functions. Information gained here provides direction for possible continuing education seminars and academic tracks offered by an urban university to foster economic development.

Seventeen possible training needs were identified in the questionnaire. In Table 6, the numbers opposite each item among the top five items represent those respondents (of 55 total) who answered "very interested."

Respondents were most interested in ways to raise funds for economic development programs, closely followed by guidance on how to use public resources. Fund raising to support personnel and programs is of major concern to EDOs. Other interests also are identified, including how to assess an area's strengths and evaluate program effectiveness, both of which contribute to a more prudent use of limited resources. Items receiving the fewest "very interested" responses, influenced by the many small-sized EDOs in the area, include how to help local firms export to international markets (22.2 percent) and how to assist local firms in developing joint ventures with foreign companies (24.0 percent). Foreign trade matters are more closely allied to EDOs in the larger city, in this case Cleveland.

Table 6: Economic Development Training Needs and Interests
(Top Respondents)

Rank	Item	Responses	Percent
1	How to raise funds for economic development programs	26	47.3
2	How to use state/federal resources in economic development programs	25	45.5
3	How to evaluate & utilize available resources in your local area & elsewhere in Ohio	23	41.8
4	How to evaluate economic development program effectiveness	22	40.0
5	How to assess & build upon your community's technological strengths for economic development	21	38.2

N for each item = 55

Top-ranked training needs correlate with each other and with other dimensions provided in the questionnaire. A strong association, (0.65), significant at the 0.05 level, exists between how to raise funds and how to use state and federal resources in economic development programs. This high correlation may be due to the perception that fund raising for economic development is best accommodated by public resources, specifically at the state and federal levels. Fund raising is correlated with other training needs, including how to package innovative financial deals for small business (0.57), how to develop trade and investment leads for the local area (0.52), and how to use volunteers (0.45).

How to evaluate resources, the third-ranked training need, is associated with how to prepare a community fact book presenting the area's strengths (0.54). This relationship is to be expected because information on existing resources is necessary to create a community fact book. A fact book is a logical vehicle for presenting relevant data on a community's resources. Training needs on how to evaluate resources is also highly correlated with how to gain effective public and private leadership for the community's economic development program (0.55). This relationship could be interpreted two ways. One is that effective community leadership is essential to provide better access to resources. Second, respondents see that the ability to evaluate the area's strengths will enhance their tasks of promoting the community[2].

The highest ranked training needs are not strongly associated with any particular definition of economic development. Nor are they closely associated with particular dimensions of local or Northeast

Ohio economic development priorities. In fact, how to evaluate program effectiveness as training need is negatively correlated (– 0.51) with the need to increase cooperation between the public and private sectors for economic development of the local area. Chambers of commerce, for example, tend to evaluate program effectiveness different than the public sector, with their focus on the creation of wealth and business investment rather than only the addition of jobs [3]

Training needs are correlated with certain current functions performed by EDOs in the local area. How to use public (state / federal) resources in economic development programs is correlated with the fifth highest ranking EDO function of providing a community and business data base (0.56). Presumably, data base preparation with which to make sound decisions is an important use of resources. In addition, the training need of how to evaluate economic development program effectiveness correlates rather strongly with real estate development, identified as a current function by 36.4 percent (20th ranked) of the respondents (0.46). The physical development of real estate points to a visible sign of improvement for an area[4].

Training needs also are associated with future planned functions. A correlation exists between how to use public resources and lakefront development (0.42), an issue of growing concern to Northeast Ohio. Not only Cleveland, but suburban areas bordering Lake Erie, are developing a keen interest in the lakefront. A relatively strong correlation (0.41) also exists between the training need of how to evaluate and use all available resources and new venture start-up / small business development as a future-planned economic development function. Small business, as noted in previous sections, is of major concern to EDOs[5].

Correlations also were examined between training needs and resources, or key contacts. Generally, these correlations were not particularly strong. The most significant ones among top-ranked training needs include how to utilize public resources with the resource of city government development offices (0.38) and how to evaluate the effectiveness of economic development programs with convention bureaus as a resource (0.39). City government development offices ranked third in resources, at 63.6 percent of the respondents, while convention bureaus ranked last, at 10.2 percent[6].

In sum, key training needs as perceived by EDO respondents are noted. Public and private resource identification, fund-raising methods, assessment of a community's strength, and the capacity to evaluate program effectiveness all constitute key training areas.

Training needs are correlated with each other, particularly how to utilize public resources and how to raise funds, and with various economic development priorities, functions, and resources (Table 7). Training needs including how to use public resources and the capacity to evaluate program effectiveness are also relatively strongly correlated with items such as preparing a data base, lakefront development, small business development, and real estate development. Key resources correlated with training needs include city government development offices.

Summary and Conclusions

In summary, the survey of EDOs in the Cleveland region of Northeast Ohio has provided initial insight into their structure and functions. Findings tend to mirror those of other EDO studies discussed in the literature survey. Unlike previous studies, a section on training needs and interests was included in this survey. Responses reflected an interest in increasing skills in current functions performed.

EDOs operate from an "efficiency paradigm," which calls for making the city more efficient as a place to do business while increasing the operating efficiency of local firms.

Dimensions concerning structure indicate that there are numerous EDOs with few employees that service small geographic areas. The multitude of EDOs, particularly small town chambers of commerce and city hall departments, stem from the plethora of small cities, towns, villages and townships. Budgets, likewise, are small. Funds are derived from membership dues, often from business and industrial members and government grants. Expenditures go toward personnel and programs.

There are exceptions. Region-wide EDOs do exist with significant budgets. Some perform specialized functions, such as technology development, and others possess the expertise to perform a range of functions, from international trade to small business development.

EDOs operate from an "efficiency paradigm," which calls for making the city more efficient as a place to do business while increasing the operating efficiency of local firms. Efficiency is defined generally to include traditional areas of interest, such as public infrastructure improvements and capital availabili-

Table 7: Training Needs And Strongest Correlations With Other Training Needs And Various EDO Functions

Training Need	Training Need	E.D. Definition	Local Priorities	Current Functions	Future Functions	Resources
Raise Funds	—Develop Trade & Investment Leads (0.52) —Package Financial Deals for Small Business (0.57) —How to Use Volunteers in E.D Programs (0.45)					
Use State/ Federal Resources	—How to Raise Funds (0.65) —Package Financial Deals for Small Business (0.48)			—Prepare a Data Base (0.56)	—Lakefront Development (0.42)	—City Government Department (0.38)
Evaluate and Use Area/Ohio Resources	—Prepare A Community Fact-Book (0.54) —Gain Effective Leadership (0.55)				—New Venture Start-up Small Business Development (0.41)	
Evaluate Program Effectiveness			—Increase Public-Private Sector Cooperation (−0.51)	—Real Estate Development (0.46)		—Convention Bureau (0.39)
Assess And Build on Community's Technological Strengths	—Develop Trade & Investment Leads (0.45)	—Encourage Investment by Business (0.31)				

ty. Some EDOs, however, broaden the notion of efficiency to include leadership development, public-private cooperation, strategic planning for development, labor-management relations, and legislative assistance on behalf of business and industry. In both views, EDOs act as information brokers and catalysts to foster economic development. They depend heavily on a host of resources, ranging from legislative bodies to utility companies.

The efficiency paradigm reflects the primary concerns of EDOs, that is the retention, expansion, and attraction of firms. In this survey, manufacturing firms and small businesses received priority attention. In addition, EDOs have focused on the importance of functions performed within firms, including production activity, precision operations, research and development, and central administration. Firms and their various functions are important to the community because of their wealth and / or job creation potential.

Training needs and interests generally reflect the overall concern for efficiency found under the broad heading of EDO functions. Resource identification and use, coupled with assessment of an area's strengths, and evaluation of program effective-

ness are major areas of concern. These training needs correlate with functions such as real estate development and small business development, and resources including city government development departments.

The survey has provided insight into the role of EDOs. In addition, at least one role is suggested for the urban university, that of providing seminars or supplementing existing academic tracks to support the efficiency paradigm needs of EDOs. However, what is not included in the survey results suggests an additional role for the urban university. There is a need to go beyond efficiency to include a focus on the workers (both labor and management), their community, the role of the work place in building community, ways to tie a firm more closely to the community in a global economy, tying community to the region, and ways to deal with structural contradictions within the firm, such as unwanted mergers and acquisitions. A handful of EDOs, in fact, are beginning to address these broader issues. The urban university can play an important role as catalyst and facilitator in bringing these issues to the center of the economic development process.

Notes:

1. Northeast Ohio is defined as an 11 county area including Ashtabula, Cuyahoga, Geauga, Lake, Lorain, Mahoning, Medina, Portage, Stark, Summit and Trumbull counties.

2. Several other strong correlations exist between various training needs that are not among the top-ranked. Examples include how to gain effective leadership for economic development programs with development of a fact book (0.73) and use of volunteers (0.57); how to package innovative deals with small business with development of a strategic plan (0.57) and development of a fact book (0.53); how to assist local firms in developing joint ventures with foreign firms and how to help local firms expand to international markets (0.56); and how to develop trade and investment leads in the local area of the EDO with development of a strategic plan (0.56).

3. Other training needs that are not among the highest ranked are correlated with priorities for economic development. A regional workshop on economic development activities in the region is correlated with increased public-private cooperation in economic development, a priority for the local area (0.40). How to target is correlated with the local priority of small business expansion (0.39). Meanwhile, the training of developing joint ventures is associated with corporate headquarters development as a priority for Northeast Ohio (0.44). How to use the computer for effective economic development is correlated with the Northeast Ohio priority of small business expansion (0.48).

4. Other training needs not among the top five are correlated with current functions performed by EDOs. The training need of how to assist local firms in developing joint ventures with foreign firms is correlated with the function of targetting industry development (0.58) and international trade and business development (0.44). Computer use in economic development correlates with the function of developing international trade (0.53). Finally, a workshop on regional economic development activities is associated with the economic development capacity building function (0.47).

5. Other training needs are correlated with future functions performed by EDOs. Packaging innovative financial deals with small businesses is positively correlated (0.46) with marketing the area. A workshop on economic development activities in the region is correlated with lakefront development (0.49).

6. Other training needs are correlated with future functions performed by EDOs. Developing joint ventures is associated with the presence of a metropolitan chamber of commerce (0.48). Helping firms export to international markets is associated with private consultants (0.49).

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